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The Annual Authorization for the Pa...

**THE ANNUAL AUTHORIZATION FOR THE  
PANAMA CANAL COMMISSION AND THE  
ANNUAL AUTHORIZATION FOR THE  
UNITED STATES MARITIME ADMINIS-  
TRATION**

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HEARING

BEFORE THE

SPECIAL OVERSIGHT PANEL ON THE MERCHANT  
MARINE

OF THE

COMMITTEE ON NATIONAL SECURITY  
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

SECOND SESSION

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HEARINGS HELD

MARCH 5, 1996



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U.S. GOVERNMENT PRINTING OFFICE

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## SPECIAL OVERSIGHT PANEL ON THE MERCHANT MARINE

HERBERT H. BATEMAN, Virginia, *Chairman*

RANDY "DUKE" CUNNINGHAM, California	GENE TAYLOR, Mississippi
DUNCAN HUNTER, California	OWEN PICKETT, Virginia
CURT WELDON, Pennsylvania	NEIL ABERCROMBIE, Hawaii
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TILLIE K. FOWLER, Florida	

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MARCELLA A. WILDING *Staff Assistant*

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**ANNUAL AUTHORIZATION OF THE PANAMA CANAL COMMISSION AND THE ANNUAL AUTHORIZATION FOR THE UNITED STATES MARITIME ADMINISTRATION**

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HOUSE OF REPRESENTATIVES,  
COMMITTEE ON NATIONAL SECURITY,  
SPECIAL OVERSIGHT PANEL ON THE MERCHANT MARINE,  
*Washington, DC, Tuesday, March 5, 1996.*

The panel met, pursuant to notice, at 10 a.m., in room 2337, Rayburn House Office Building, Hon. Herbert H. Bateman (chairman of the panel) presiding.

**OPENING STATEMENT OF HON. HERBERT H. BATEMAN, A REPRESENTATIVE FROM VIRGINIA, CHAIRMAN, SPECIAL OVERSIGHT PANEL ON THE MERCHANT MARINE**

Mr. BATEMAN. The panel will come to order. In today's hearing we will cover two very important topics, the annual authorization for the Panama Canal Commission and the annual authorization for the U.S. Maritime Administration. As many in the audience know, the National Security Committee assumed legislative and budget authority over these two agencies with the House rules change in 1995.

I apologize for having to have this hearing so early in the cycle when all of the budget data is not available. However, please be assured that this material will be provided as soon as it is released.

Nevertheless, I believe there are a sufficient number of issues that need to be examined that it makes sense to proceed with this hearing at this time. For both of these agencies, the level of the operational budget has not been a point of contention. I believe that will be the case again this year.

In the case of the Maritime Administration, the big issue this year will hopefully be the implementation of the Maritime Security Act of 1995. I hope to be assured today that this agency is fully prepared for what is to be a historic event. We on this panel fought hard and successfully to get this legislation approved by the House. Many doubted whether it could be done.

I would be remiss at this point if I did not commend the members of the panel for their support during the drafting stage and during the floor debate. The range of support from all elements of the political spectrum was truly amazing. I understand and indeed hope the Senate will shortly follow suit.

In the case of the Panama Canal Commission, we had a similar success story. This panel worked closely with the Administration and the Canal Commission to develop and pass legislation that has been stalled in the Congress. Most notably, we were successful in converting the Canal Commission to a private Government corpora-

tion which is essential if the transition to Panamanian control is to be successful. We made a number of other important changes. That was but a first step.

I am advised that the Administration will again be seeking changes to the organic statutes. While I realize that the Office of Management and Budget [OMB] has yet to clear on a final proposal, I hope that the witnesses today can touch on the need for additional legislative changes. I understand that we can expect another package next year that will relate to procurement issues. Please be assured, and I think I speak for all the members of the panel, that we want the transition to go as smoothly as humanly possible. We on this panel want to facilitate that effort.

At this point I would like to welcome the witnesses who have been invited to appear before us today. First, I want to extend a very personal welcome to the Honorable Gilberto Guardia, the Administrator of the Panama Canal Commission, and of course to Secretary Reeder who is the Chairman of the Board of Directors of the Commission.

Mr. Guardia, I trust your visit to this country has been a pleasant one. The one thing I would ask is that you not bring us any more snow. I understand that we have additional individuals who will be at the witness table and I will leave it to you to introduce those persons.

Finally, I would like to again welcome Admiral Herberger, the Administrator of the U.S. Maritime Administration. From my vantage point, Admiral, you are doing an outstanding job and you are to be commended. I truly believe that we are as close as we have ever been to getting maritime reform through the Congress. And I want to express my personal thanks for your support and the support of your staff over the past several months. We have produced a bill which will hopefully stop the hemorrhaging that has depleted our U.S. fleet and we have done it with very tight fiscal constraints. Again thank you for your help.

I would like to now call on our ranking member of the panel, the Honorable Gene Taylor of Mississippi for any remarks he may choose to make. But let me say to all of those who are present today that as chairman I could not have a better ranking member. Our efforts have been truly bipartisan and whatever success we have had is directly related to your assistance and support.

Gene, I recognize you for any comments you choose to make.

Mr. TAYLOR. Thank you, Mr. Chairman. It is always the remarks from someone immediately prior to the meeting, I would think that if the majority in the House of Representatives could shift back from the agenda, this panel would not change one iota. I think you have said everything that needs to be said. We have had some people come, in the case of Mr. Guardia, from thousands of miles away, and I think we ought to give them the opportunity to talk to us rather than the other way around. Thank you very much.

Mr. BATEMAN. Thank you, Mr. Taylor.

Admiral Herberger, we would be happy to hear from you at this time.



**STATEMENT OF ADM. ALBERT J. HERBERGER, MARITIME  
ADMINISTRATION, U.S. DEPARTMENT OF TRANSPORTATION**

Admiral HERBERGER. Mr. Chairman and members of the panel, I welcome the opportunity to be with you today to discuss the Maritime Administration's programs for fiscal year 1997. As you know, the specific figures comprising the budget request will be transmitted to the Congress when the President's budget is submitted on March 18.

First, I would like to thank the members of the Merchant Marine Panel and the Committee on National Security for all their support in passing H.R. 1350, the Maritime Security Act. I would especially like to thank you, Mr. Chairman, Vice Chairman Cunningham, and Congressman Taylor, for your bipartisan leadership, so critical to the passage in the House. Senate action on this legislation is pending.

I will highlight some of the Maritime Administration [MARAD's] accomplishments in fiscal year 1995 and fiscal year 1996 as an introduction to our fiscal year 1997 request. Title XI loan guarantee program—since enactment of the National Shipbuilding Initiative in 1993, MARAD has approved over \$1.5 billion of title XI financing for 144 vessels and three shipyard modernization projects as of February 23, 1996.

Recent approvals include the \$247 million Hvide Van Ommeren Tanker project involving five double hull tankers to be built by Newport News Shipbuilding and operated in the domestic trade, and the Dannebrog project for two double hull chemical tankers to be built by the Alabama Shipyard. These projects and others totaling 15 oceangoing ships represent a major breakthrough by U.S. shipyards back into the commercial shipbuilding market.

MARAD's three approvals for shipyards' modernization included financing National Steel and Shipbuilding Company's [NASSCO] capital improvement project. The \$22.7 million title XI loan guarantee assisted NASSCO in modernizing the yard. This modernization, along with Avondale's title XI modernization project, will enable improved productivity on existing Navy work, resulting in a savings to the Government estimated to be \$37.5 million, as well as improved capability for commercial ship work.

The Maritime Security Program—as you know, H.R. 1350 will establish a new Maritime Security Program [MSP] under title VI of the 1936 Merchant Marine Act. This 10-year program with annual appropriations will provide support for up to 47 U.S.-flag vessels in foreign commercial trade of the United States. Payments are up to 50 percent less per vessel than payments made under the existing operating differential subsidy program. It should be noted that of critical importance to future sealift contingencies is the availability of trained mariners to crew the Government-controlled fleet.

A major element of the Maritime Security Program [MSP] is an Emergency Preparedness Program. MARAD, together with the U.S. Transportation Command and U.S. carriers, is currently engaged in a 1-year prototype program called the Voluntary Intermodal Sealift Agreement [VISA] which will be the Emergency Preparedness Program. VISA has been developed using lessons learned from the Persian Gulf conflict. The objective of VISA is to facilitate Department of Defense [DOD] use of existing commercial intermodal

transportation systems. The VISA program takes advantage of the U.S. commercial companies multibillion dollar capital base and its modern door-to-door transportation capabilities.

The Ready Reserve Force—MARAD's National Defense Reserve Fleet [NDRF] is now funded by the Department of Defense National Defense Sealift Fund. There are 220 ships in the NDRF of which 92 are Ready Reserve Fleet [RRF] ships. The RRF is geared to support rapid worldwide deployment of U.S. military forces and its operations have been outstanding.

We recently deployed two ships in the RRF for Operations Joint Endeavor and Quicklift to assist the Bosnian peacekeeping effort. Our activation time response averaged only 2 days.

MARAD's operations and training activities include maritime education and training and operating program expenses. The maritime education and training program includes the cost of officer training at the U.S. Merchant Marine Academy at Kings Point and support for six State academies.

America's economic and national security interests depend more and more on a modern, integrated, efficient intermodal transportation system and shipyard and engineering management. As it has in the past, the United States depends on new well-educated leaders to operate and manage its increasingly complex intermodal transportation systems and shipyards.

Critical Federal financial support is also provided to the six State maritime schools operated by California, Maine, Massachusetts, Great Lakes, New York, and Texas. As in the case of the Merchant Marine Academy, the State schools educate professional maritime industry graduates who ultimately become leaders in our vital maritime community.

Another area that needs our attention, waterborne cargo and port facilities are extremely important to our economy and security interests. Waterborne transportation is inherently intermodal in the movement of freight from origin to final destination. Ports must be effectively linked with land-based modes of rail, road, and air to form a truly productive intermodal transportation system and to serve our military needs when needed.

We will be working to improve port waterside and landside access to our ports and the intermodal connectors vital to our Nation's freight movements, our economic growth, and national security.

Mr. Chairman, in summary, the Maritime Administration's fiscal year 1997 budget request will reflect the President's commitment to our Nation's maritime industry. The budget will seek to maintain support for sealift readiness, the continuation of a U.S.-flag fleet, strong commercial shipbuilding, maritime education and training, and other maritime support programs.

This concludes my prepared statement. I will be pleased to answer any questions you may have.

[The prepared statement of Admiral Herberger follows:]

STATEMENT  
OF  
ALBERT J. HERBERGER  
MARITIME ADMINISTRATOR  
ON  
BEHALF OF  
THE  
MARITIME ADMINISTRATION  
BEFORE THE  
OVERSIGHT PANEL ON THE MERCHANT MARINE  
OF THE  
NATIONAL SECURITY COMMITTEE  
U.S. HOUSE OF REPRESENTATIVES  
IN SUPPORT OF  
FISCAL YEAR 1997 AUTHORIZATION  
FOR THE  
MARITIME ADMINISTRATION  
MARCH 5, 1996

DEPARTMENT OF TRANSPORTATION  
STATEMENT OF MARITIME ADMINISTRATOR  
ALBERT J. HERBERGER  
BEFORE THE OVERSIGHT PANEL ON THE MERCHANT MARINE  
OF THE  
COMMITTEE ON NATIONAL SECURITY  
U.S. HOUSE OF REPRESENTATIVES  
IN SUPPORT OF FISCAL YEAR 1997 AUTHORIZATION  
FOR THE MARITIME ADMINISTRATION

Mr. Chairman and Members of the Panel:

I welcome the opportunity to be with you today, to discuss the Maritime Administration's (MARAD) programs for Fiscal Year 1997. As you know, the specific figures comprising the budget request will be transmitted to Congress when the President's budget is submitted on March 18, 1996.

First, I would like to thank the members of the Merchant Marine Panel, and the Committee on National Security, for all their support and hard

work in passing H.R. 1350, the Maritime Security Act. I would especially like to thank you, Chairman Bateman, Vice Chairman Cunningham, and Congressman Taylor, for your bipartisan leadership -- so critical to passage in the House. Senate action on this legislation is pending, and we are confident of final passage. We are also preparing to implement the Maritime Security Program.

At this time, I will highlight some of MARAD's and the Administration's significant accomplishments in FY 1995 and the beginning of FY 1996. These include the Title XI shipbuilding loan guarantee program, the Maritime Security Program, the Voluntary Intermodal Sealift Agreement (VISA) Program, the Ready Reserve Force, maritime training and the importance of intermodal transportation to national security. I would also like to bring your attention to the attached objectives of our agency that relate to our national security role.

### Title XI Loan Guarantee Program

Let's begin with Title XI. Since enactment of the National Shipbuilding Initiative (NSI) in 1993, MARAD has approved over \$1.5 billion of Title XI financing for 144 vessels and three shipyard modernization projects as of February 23, 1996. Included among these approvals were 13 double-hull tankers that will meet all environmental requirements of the Oil Pollution Act of 1990 and the International Maritime Organization (IMO) standards; numerous vessels to be operated under Military Sealift Command charter; and almost 100 liquid and dry cargo barges.

We continue to see the tangible results of our commitment to a vigorous shipbuilding industry and the thousands of skilled workers who are a part of that industry. Recent approvals include the \$247 million Hvide Van Ommeren Tanker project involving five double hull tankers to be built by Newport News Shipbuilding and operated in the domestic trade, and the Dannebrog project for two double hull chemical tankers to be built by Alabama Shipyard. The chemical tankers will be

owned and operated by Danish controlled companies in the international trades. These projects represent a major breakthrough by U.S. shipyards into the commercial shipbuilding market -- all facilitated by a small contribution of appropriated funds that are leveraged to finance large projects.

A word about OPA '90 and shipbuilding. The combination of OPA '90 and Title XI has given us the opportunity to stimulate shipbuilding while we further protect the environment. "A two-for" that creates jobs and preserves our vital national resources. Those of you here who had a hand in crafting OPA legislation are to be commended for your foresight. We in the Administration have worked hard to forge a successful public and private partnership that utilizes these Government programs to stimulate the U.S. shipbuilding industry. And, if I may say so, we have been very successful.

MARAD's three approvals for shipyard modernization included financing National Steel and Shipbuilding Company's (NASSCO) capital improvement project. The \$22.7 million Title XI loan guarantee will

assist NASSCO in modernizing the yard with heavy crane capacity, a fiber-optic network and 3-D computer-aided design terminals. This modernization, along with the Avondale Title XI modernization project, will enable improved productivity on existing Navy work, resulting in savings to the Government estimated to be \$37.5 million.

As of February 23, 1996, MARAD is reviewing 27 applications for approximately \$1.9 billion in ship construction loan guarantees. For the benefit of the members of the Panel, I have attached the most recent breakdown of our approved and pending Title XI loan applications.

As you can see, since the enactment of the National Shipbuilding Initiative (NSI), and the President's 5-part shipbuilding plan, Title XI funds have been utilized for shipbuilding projects for both domestic and foreign markets, as well as shipyard modernization projects. All of these projects ultimately revitalize an important national resource and further protect our security interests.



Maritime Security Program

Mr. Chairman, I will now discuss the Maritime Administration's proposed new Maritime Security Program (MSP).

As you know, H.R. 1350 will establish a new Maritime Security Program (MSP) under Title VI of the 1936 Merchant Marine Act. This ten-year program will provide support for up to 47 U.S.-flag vessels in the foreign commercial trade of the United States. The MSP will be subject to an annual appropriation and requires payments to participants of \$2.3 million per ship per year during fiscal year 1996, decreasing to \$2.1 million per ship per year for the remaining nine years of the program. These payments are up to 50 percent less, per vessel, than payments made under the existing operating-differential subsidy (ODS) program. In return for this operating assistance, MSP operators will make their commercial transportation systems available to DOD during a national emergency.

It should be noted that of critical importance to future sealift contingencies is the availability of trained mariners to crew the government-controlled fleet. Without a U.S.-flag merchant marine or a merchant mariner reserve program, the majority of the current pool of U.S. mariners will disappear. The crews that work on our Nation's commercial fleet ultimately man the Ready Reserve Force (RRF) and other Government-owned ships. It follows that the future of the MSP could affect the future of the RRF and the Government fleet.

We have already made significant progress in our plans for the future implementation of the MSP. MARAD has obtained Office of Management and Budget (OMB) approval for an MSP Application Form, and is preparing implementing regulations. After enactment of H.R. 1350, MARAD plans to immediately solicit applications and publish the regulations. We could expect to review applications and make tentative determinations concerning participant and vessel selection about five weeks after enactment. Final selection of participants and vessels, and the offering of MSP Agreements to selected carriers could take place within 45 days of enactment. The MSP could actually

commence once carriers execute agreements. Assuming a May 1, 1996 start date, the MSP can support the full program complement of 47 ships for the five months remaining in FY 1996.

A major element of the MSP is its requirement for a participant's enrollment in an Emergency Preparedness Program. MARAD, together with the U.S. Transportation Command and interested U.S. carriers, is currently engaged in a one-year prototype program called the Voluntary Intermodal Sealift Agreement (VISA) which will be used to fulfill the requirements of the Emergency Preparedness Program for the MSP. VISA has been developed using lessons learned from the Persian Gulf conflict. The objective of VISA is to promote and facilitate Department of Defense (DOD) use of existing commercial intermodal transportation systems -- from ships to containers to management systems -- while minimizing disruption to commercial operations. The VISA program takes advantage of the U.S. commercial fleet's multi-billion dollar capital base and its door-to-door transportation capabilities. VISA incorporates joint planning by the industry and government to provide a mechanism for carriers to pool assets to meet both DOD and

commercial commitments. VISA also provides for a seamless, time-phased transition from peacetime to wartime operations for the deployment and sustainment of U.S. forces. Currently, the U.S. Transportation Command, together with MARAD and industry, is developing concepts of operation, which for the first time in peacetime, include commercial carriers in the dissemination of classified military contingency plans.

#### Ready Reserve Force

As you know, MARAD's National Defense Reserve Fleet (NDRF) will now be funded by the Department of Defense National Defense Sealift Fund. There are 220 ships in the NDRF, of which 92 are Ready Reserve Force (RRF) ships. The RRF is geared to support the rapid worldwide deployment of U.S. military forces. The RRF has proven to be a key element of strategic sealift, transporting military equipment and initial resupply for forces deployed anywhere in the world, during the critical period before adequate numbers of commercially available ships can be marshalled.

RRF ships are ready in 4, 5, 10 or 20 days, depending on their location and state of readiness. Forty-six RRF ships are outposted at locations around the United States. Most of the remaining ships are moored at the three reserve fleet sites at James River, Virginia; Beaumont, Texas; and Suisun Bay, California, and three small tankers in Japan.

By the end of fiscal year 1996, the RRF will total 94 ships consisting of 35 breakbulk ships, 31 roll-on/roll-off (RO/RO) vessels, 7 heavy lift ships, 9 auxiliary crane ships, 10 tankers and 2 troopships.

RRF operations have been outstanding. At the request of the Department of Defense, we have recently deployed two ships in the Ready Reserve Force (RRF) for Operations Joint Endeavor and Quicklift to assist the Bosnian peacekeeping effort. Our response time averaged only two days. Fourteen RRF vessels assisted in Operation Uphold Democracy for Haiti peacekeeping during the first quarter of FY 1995, and all were activated without problems in an exceptional average of 3.1 days time.

By the end of the year, approximately one-half of the RRF will be manned by "cadre crews" (of 9 or 10 crew members). Cadre crews are required to sail with their assigned ships and are on 96-hour readiness status. The introduction of the cadre crew has greatly improved the readiness of the RRF since DESERT STORM.

### Other Programs

MARAD's Operations and Training activities include Maritime Education and Training and operating program expenses.

The maritime education and training program includes the cost of officer training at the U.S. Merchant Marine Academy at Kings Point, New York and support for six State academies. The Academy graduates receive commissions in the Naval Reserve or one of the other Armed Forces. Kings Point is the largest single source of naval reserve officers. Over 26 percent of the Class of 1995 went on active duty in the Navy.

I should point out why the Merchant Marine Academy at Kings Point is so important. The U.S. Merchant Marine Academy was established to educate leaders for the merchant marine and maritime industry. The need for this Federal institution has not changed, but the maritime industry has evolved and changed.

America's economic and national security interests depend more and more on a modern, integrated, efficient intermodal transportation system. As it has in the past, the U.S. depends on new and well-educated leaders to operate and manage its increasingly complex intermodal transportation system.

The modern mission and purpose of the U.S. Merchant Marine Academy is clearly defined: "To provide America's Armed Forces, Merchant Marine and intermodal transportation systems with professional officers and leaders of honor and integrity." Kings Point's curriculum, regimental system and the entire Academy experience are focused on providing leaders to serve the economic and military transportation needs of the Nation, with particular emphasis on the

mode of sealift. The special emphasis on marine transportation and sealift is essential because over 95 percent of America's imports and exports move by ship. This is why the Federal investment in Kings Point is necessary.

Federal financial support is also provided to the six State maritime schools operated by California, Maine, Massachusetts, Michigan, New York and Texas. As in the case of the Merchant Marine Academy, the State schools educate professional maritime officers who ultimately become leaders in our maritime community. Assistance to the State academies is in the form of direct payments, incentive payments to cadets, and maintenance and repair of five ships on loan for use as training ships. Supplemental training courses in shipboard fire fighting, marine diesel engineering and national defense-related courses for licensed and unlicensed merchant mariners are also funded from this account.

All of you already know that waterborne cargo and our port facilities are extremely important to our economy and security interests. I



would like to spend a few minutes discussing some of our programs that relate to the question of emergency port readiness, the movement of cargo, and port access.

Under the Federal Port controller program, MARAD coordinates port activities at the local level during national emergencies, or upon the deployment of U.S. forces. MARAD coordinates its port emergency planning activities with other agencies such as the U.S. Coast Guard, the Military Sealift Command, and the Military Traffic Management Command, on an interagency basis. MARAD currently chairs the National Port Readiness Steering Group for a one-year term.

MARAD also plays an active role in ensuring the smooth flow of commercial cargo through our Nation's ports. In 1995, MARAD chaired the Clinton Administration's Interagency Working Group on the Dredging Process, which prepared an Action Plan for improving the way we approach that essential function.

Waterborne transportation is inherently intermodal in the movement of passengers and freight from origin to final destination. Ports must be effectively linked with the land-based modes of rail, road and air to form a truly productive intermodal transportation system and to serve our military needs.

As a result, MARAD will be actively involved in the reauthorization of the Intermodal Surface Transportation Efficiency Act (ISTEA). We will be working to improve port waterside access and landside access to our ports and the intermodal connectors vital to our Nation's freight movements, our economic growth and national security.

### Summary

The Maritime Administration's FY 1997 budget request will reflect the President's commitment to our Nation's maritime industry. The budget will seek to maintain support for sealift readiness, the continuation of a U.S.-flag fleet, strong commercial shipbuilding, maritime education and training, and other maritime support programs.

This concludes my prepared statement. I will be pleased to answer any questions you may have.

##

# MARAD OBJECTIVES



- ENSURE AN ACTIVE FLEET OF U.S. PRIVATELY-OWNED AND OPERATED COMMERCIAL VESSELS
- PRESERVE A U.S. INDUSTRIAL SHIPBUILDING/SUPPLIER BASE
- ENSURE A POOL OF TRAINED U.S. CITIZEN MARINERS
- ENHANCE EFFICIENT PORT AND INTERMODAL SYSTEMS
- MAINTAIN A READY RESERVE FLEET OF CARGO VESSELS

Mr. BATEMAN. Thank you very much, Admiral. I realize that there are inherent difficulties in asking you to comment about a budget that has not yet been submitted to the Congress. But can you give us any indication of your level of comfort that the maritime programs are going to be properly addressed?

Admiral HERBERGER. All the programs that I addressed, the MSP, the Maritime Security Program, the Title XI Program, and the operating and training, all are supported in the budget that I saw before lockup. I am comfortable with the numbers.

Mr. BATEMAN. I certainly hope it will stay on track.

Admiral HERBERGER. I hope it is at the printers.

Mr. BATEMAN. We do too. We look forward to having the formal submission and, of course, we will continue discussions with you when we actually have the documents in hand.

Another area that I think it might be useful for you to address relates to the Merchant Marine Academy and some criticisms that were leveled I guess by the inspector general with regard to whether or not the graduates were fulfilling their requirements that were a part of their being educated at this tax-supported institution. And it is a very fine institution. Can you tell us what progress has been made in that?

Admiral HERBERGER. Yes, we have a much better system in effect now than we had a few years ago. The test class that was used in the Department of Transportation inspector general [DOT IG] report was the class of 1987. Starting with the class of 1995, there are contracts that will require the payment, a full payment back of any Federal funds that have been used to that point, and an individual's time at the Academy or even after in not fulfilling the Reserve obligation. Each graduate is commissioned in a Reserve component, either the Navy or the Armed Forces or the Coast Guard, and have an 8-year obligation which is certainly as long as any other Reserve component. They can fulfill it by serving in the merchant marine, so I think through a much better liaison with the Naval Reserve, in terms of the numbers that serve for active duty periods.

Also, we are monitoring the amount of active duty for training and funds that are available. That was another one of the problems is that the Navy was having difficulty with the amount of Naval Reserve funding for active duty training, and even when we had individuals that had the time and were disposed to go on active duty, they could not because of the annual fund problem. So I can say that we have made significant progress toward ensuring that all those that get the benefit of this training and education fulfill their obligations to the Government.

Mr. BATEMAN. Thank you, admiral. Mr. Taylor.

Mr. TAYLOR. Thank you, Mr. Chairman. Admiral, let me begin by saying that I am really pleased to see that the efforts of my colleagues and of your Maritime Administration are finally beginning to show some results as far as shipbuilding. And I think a lot of people over a number of years ought to be commended for this program, going all the way back to the Roosevelt administration particularly in the last 8 to 10 years of people reinvesting in title XI.

Since we have the incredible opportunity of Oil Pollution Act [OPA] 1990 where probably 80 percent of the world's tanker fleet

has to be replaced and since it is finally sinking into those people in the industry that Congress is not going to back down on the Oil Pollution Act and the timetables of it, now that you have got your start, what can we do to hasten the rebirth of the American shipbuilding industry, in particular in the commercial sector? I am very pleased that you informed me of the success at Avondale, the success at Newport News. What can we do to build on that? Do you have any proposals for us?

Admiral HERBERGER. I think there is a number of activities that are underway. Certainly our title XI loan guarantee program is just complementary to some other things that are taking place now. And let me use as an example Defense Advanced Research Project Agency [DARPA's] Maritech Program. A relatively modest program that started in 1993 as a result of the shipbuilding initiatives and has been getting good support from Defense is beginning to produce some significant results.

Examples, the chemical tankers and the double bottom, double eagle Newport News were both Maritech projects as to the design of those vessels. So what we have is a lot of that work that is going on in the Maritech area now coming up with improved productivity, new designs, new materials to be used in shipbuilding are beginning to bear fruit. This was supposed to be a 5-year program. We are in the third year of it and I am very encouraged by the number of results. I think this will help some of our yards that are engaged, and most of them are. There are about 15 yards altogether that are engaged in these different activities. There has been a lot of joint venture activity with leading yards, overseas' yards that have been able to come over here and help some of our yards in a particular area, a particular type ship, particularly productivity process, and I am encouraged with that. So I hope that that will continue to be supportive because it is that type of activity that I think will truly get our shipbuilding industry which has the infrastructure. It certainly has the skilled work force.

The other area that we are working hard on is trying to get more attention on the U.S. vendors, the component manufacturers. And they again have been producing world class components. And the trouble is that the U.S. market was not large enough. And as the Navy work continues to come down and/or seek a certain level, we need additional markets for those components. All those factors, I think will help to build a ship in the U.S. yard that will be competitive with what is happening in the world.

So I think the Title XI Program has worked, is working. It is a modest start, but it is a start. The Maritech Program, in my mind, there is the potential for some breakthroughs in a number of areas that we have been out of for many years. Even our marketing efforts, we took 14 U.S. manufacturers to Europe on a 10-day effort to introduce them to the German shipyards, the Danish shipyards, and they have gotten some leads over there.

So I think all of this effort in trying to recognize that we have a very vital industry—our repair yards, our smaller yards, as well as our larger yards are all part of this process. I am optimistic that those yards that step into this are going to be able to get back into more significant commercial work.

There is a need in the world brought about certainly by OPA here in the United States and this need to replace the older tonnage. The emphasis on ridding the oceans on the substandard ships, I think is going to drive a lot of that older tonnage off the oceans. The experts are predicting a need in the world for ocean-going ships of somewhere around 7,000 vessels in the next 8 to 10 years. Our hope is that the U.S. yards can get a significant part of that action. But again, we are going to have to walk first before we can jump into it. And I think that these programs are allowing us to do just that. So far we have been down on the medium size vessels, between 35 and 70,000 tons and my hope is that we can continue this forward motion.

I think the fact that we have recognized this industry as vital was an important first step and now that we have some programs, I would like to see them supported.

Mr. TAYLOR. On the Federal level is title XI funded sufficiently to take care of the requests you have?

Admiral HERBERGER. We have \$55 million left from the previous year and with the amount that we are asking for in the next year's budget, we could take on roughly about \$1.1 billion worth of additional work. We have done about 1.5. We have got 27 projects in the queue. I do not think all those projects necessarily will come to successful conclusion. To date of the projects that we have been engaged in, we have turned back nine that did not fulfill the requirements that we demand of it. I think for now we have got enough money, but I cannot look into any crystal ball and see exactly what is going to happen in the future and I am particularly concerned.

Organization for Economic Cooperation and Development [OECD], if it is ratified, will still permit us with this Title XI Program to continue on in a couple of areas and we are optimistic. One is that if OECD is ratified that all the yards will be subjected to the financing constraints. The inland waterway activity can continue. And another area that is beginning to produce some results is the power barge, the large power barge part of the shipbuilding industry, and we will be able to continue because the power barges will not be under the OECD constriction. So I am very optimistic we will be able to continue a substantial amount of title XI activity.

Mr. TAYLOR. As a result of base closure, it would be my guess that there is a significant amount of equipment in the way of graving docks and cranes, and things that have a direct shipyard use that would be available through surplus. Is there a program through your office and possibly through Maritech to make this available on a loan or type basis to our shipyards rather than have it just gather dust and rust?

Admiral HERBERGER. MARAD has a role in assessing the value of shipyards' waterfront property, former terminals, pier areas, and we make a recommendation through the process, depending whether it is coming out of DOD or Energy of whether it is feasible for that infrastructure to be used for shipbuilding and/or for port operations. And in most cases to date, they have been literally giving that property to the local group that has been set up for the reuse, particularly in the case of bases. There is a number of these reuse activities that are going on and it is a combination of some private

enterprise as well as the local authorities. And we have been engaged in a few of those today and there is obviously more coming where petitioners come in and say, we want to turn this into a terminal or we want to make this a repair facility. So we do have a role today in assessing the utility for the use of those properties.

Mr. TAYLOR. Do you put together a list of those things that are available and make the various shipyards around the country aware of what is available? And again, since we do not know everything they need, that is what I am saying, I think it would make sense to show just about everything that is in the inventory and let them pick and choose.

Admiral HERBERGER. We could do that specifically. We publish an annual report that shows the infrastructure of all our yards.

Mr. TAYLOR. If I may, the request is that you do it and actually do it on more than an annual basis. I will give you the example of an extremely large crane that had been purchased by the DOE that is now being used by a local group to help our area shipyards. I have got to believe that is not a unique set of circumstances. I have got to believe that there is a great deal of potential for that all around the country. Since we are having so much trouble with things like Operational Differential Subsidies [ODS] and other new sources of funding, we certainly need to make use of those assets that we have already paid for.

Admiral HERBERGER. We would be very happy to step into that. There are a lot of groups that are doing exactly as you said. They come to us and we try to help as much as we are able to. But we would be very happy to try to be a intermediary in that type of activity.

Mr. TAYLOR. Admiral, my last request and I think it is most appropriate coming from a member of the Democratic Party, I would certainly hope that you would impress upon the administration how important it is to maintain these programs that we have got going. We finally got some commercial sector, major shipbuilding going on, and I would certainly ask that you tell them in the strongest possible terms that we do not need an OECD agreement that in any way takes anything away from us, because we are only now getting started.

Admiral HERBERGER. I will deliver the message.

Mr. TAYLOR. Thank you for my time, Mr. Chairman.

Mr. BATEMAN. Thank you, Mr. Taylor. Admiral, I too have some concerns about the OECD agreement and what its implications are, especially for title XI which seems to be our most effective mechanism for stimulating commercial shipbuilding in the United States. Mr. Pickett, questions?

Mr. PICKETT. Thank you, Mr. Chairman. Admiral, I note that you make reference to the fact here that the National Defense Reserve Fleet is now going to be funded by the Department of Defense through the sealift operation. How is that going to impact on your operation?

Admiral HERBERGER. It is going to very good in that I am confident that the amount of moneys that we need to maintain the RRF, not so much the NDRF, not the older mothball vessels which are—there is minimal cost to that—but the RRF. We have suffered for at least 2 years where substantial amounts of our RRF operat-



ing and maintenance moneys were taken away in the total process. And I am hopeful that because of the increased use of the RRF and the increased need to maintain it at a ready level will result in the funding being supported. So I am very optimistic that that will work better than it has for us in the last couple of years when we lost \$100 million 1 year and a significant amount another year which caused us to take a lot of the RRF ships that were in a higher readiness status and put them down into a much deeper reserve. So we are recovering from that right now.

Mr. PICKETT. So there will be a line item to cover this program?

Admiral HERBERGER. It is in the National Defense Sealift Fund. That is a line item, the fund itself and it is within that.

Mr. PICKETT. And the Navy will be the fiscal agency?

Admiral HERBERGER. The Navy is the resource sponsor for that fund for DOD.

Mr. PICKETT. Thank you. The next question has to do with the comment you made about working to improve access to ports and you mentioned both the waterside access and the landside. Does the landside access to ports issue come under the Maritime Administration?

Admiral HERBERGER. Within the Department of Transportation, we are part of the numbers of agencies under the leadership of the Secretary and Intermodal Surface Transportation Efficiency Act [ISTEA], the revalidation of the ICET legislation is particularly important. And what we have been attempting to do for the last 2 years is to ensure that the needs of the ports are represented in anything that happens in that area. As you remember in the original ICET 4 years ago, there was provisions for a certain percent to go to intermodal connections to access roads to ports. And what we are doing in the Maritime Administration is trying to champion the needs of the ports in how important waterborne transportation is to the whole process.

So the role we play, we act as a catalyst. The Secretary has been very good about ensuring that our input is in the total ICET so it does not go back to just too much emphasis on highways and rail, to the exclusion of the needs of the ports. And it is beginning to pay off, I think with much greater awareness that the ports are so integral to the international trade that we are all optimistic about.

Mr. PICKETT. You are also concerned with the shipping channels?

Admiral HERBERGER. The dredging and the maintenance there, and we played a role in that by trying again to get this whole system moving, so that we can continue to dredge those channels and harbors and berths that need to be dredged in a more timely fashion. It is a long way to go in that area, as you know, due to the problem over the contaminated spoils. But it needs pressure; it needs work; and we play a role in that.

Mr. PICKETT. Another issue that concerns me a great deal is that of the manpower issue, both from the training standpoint, the number of schools that we have training people for the maritime industries, and also from the standpoint of mariners to operate U.S.-flag vessels.

I will start with the mariners. At one time we talked about having something that would be the equivalent of like a Reserve organization for these people where we would keep tabs on them, giving

them an opportunity to keep up their skills so in an emergency we would have a greater role we could turn to to get them back to operate ships if that became necessary. How do you feel about something like that?

Admiral HERBERGER. There has been a number of studies in recent years about a number of different type Reserve programs—a purely Naval Reserve, Merchant Marine Reserve, and some other ideas that have been put forth.

We are in a position now that within the funding that we get for the Ready Reserve Fleet [RRF], we can have a Reserve program; a Merchant Marine Mariner Reserve Program using the pool of mariners; the civilian mariners that are out there; using those that are in the Naval Reserve Merchant Marine Program that come out of Kings Point and the State academies; and providing for 2 weeks active duty for training on the RRF ships that they would sail on. There is any number of things that we are doing, all a very modest program. Something on the order of the first year of about 2 million going up to something like at steady state with a pool large enough to cover the ever-changing Ready Reserve.

What I have been advocating is that annually we should look at the size that are Ready Reserve, see the types of ships that are in there, see the types of ships and numbers that are in the Government fleet and then match the manpower needs with that pool from the civilian mariners, the skilled civilian mariners; work in conjunction with the unions that have the very fine unlicensed schools to ensure that they train. If we need steam engineers and we have not got enough in the pool because the fleet is activating or sailing in diesel, that we train some more steam engineers. The cargo gear, the handling gear, again a lot of the ships are ungeared now, so they have special facilities to train on that.

So a tailored program, minimal cost reflecting each year whatever that Government fleet, whatever that need might be, and keeping track of the mariners. We hold annual exercises. We held one in July. We call that a breakout. And we notify or we contact every merchant mariner, the names that are given by the unions, to ensure that they are alive and where they are, what their telephone numbers are, and we are going to continue that. On an annual basis we will validate the pool that are supposed to be assigned.

Another thing that has happened is that on 22, and we are going up to maybe 29 ships in the RRF, we have cadre crews, 10-man, 9-man cadre crews. That is a very successful program in that we are maintaining those ships in a much better state of readiness. One of the big problems in Desert Storm/Desert Shield was the shortage of senior engineers. Sixty percent of those cadre crews are senior engineers, so we are addressing that problem. The whole idea here is to conserve funds but also be prudent in ensuring that we had that skilled manpower in case of a need.

Mr. PICKETT. You mentioned earlier about tightening up the requirements at Kings Point. What about the State academies, are you also making sure that they are complying with this also?

Admiral HERBERGER. Yes, that would apply, the same thing would apply to all those that have an obligation as a result of any specific Federal assistance.

Mr. PICKETT. My final question has to do with ship repair. You have done a remarkable job on reinvigorating some new ship construction. But in the area of ship repair are there things that we can do to make the U.S. repair yards more attractive and more competitive to the foreign fleets as well as to American flag ships?

Admiral HERBERGER. We have worked in the ship repair area. They are very much part of our—we have been holding a number of seminars to again encourage our ship yards, both repair and building yards to be more forthcoming and their capabilities market a little, if you will. They are in on all of the activities that we are engaged in and some of them are becoming very good at that, and I think as a result getting some increased commercial activity. I do not know of anything specific today that has to be done in the Congress. I do think that many of the yards are being aggressive in their own right to get additional—and a lot of it depends on the geography too, where they are and just what their capabilities are. And maybe some of the ideas that Congressman Taylor had about additional equipment, major capital equipment, such as cranes and floating drydocks and the like, may be of some help too. I think there is enough of it in the country. It may not be in the right geographic area.

Mr. PICKETT. I think there is plenty of it. I think the problem is getting them the business they need to keep them going. Specifically, I judge from your remarks that you have in your organization some department or some activity that is focused specifically on the new ship construction. Do you have a similar kind of an organization that is trying to assist repair yards in getting their fair share of the worldwide market for ship repair?

Admiral HERBERGER. We reorganized the Maritime Administration 2 years ago, and one of it is in the shipbuilding, ship repair area. These are small numbers. I have five people in this revitalization area and I have hired an expert on ship repair. Again to be the individual that we lean on to help and concentrate on ship repair. We have tried to do it in a number of areas. These are not large staffs, but they are making a mark. And again, we are downsizing, obviously. So within the constraints of downsizing, what we have tried to do is reapportion the people at MARAD to concentrate on these new areas. Not new areas, they are old areas for MARAD, but we are trying to revitalize them. So yes, I do have an individual now who is an expert. He came out of the ship repair area and he is my action officer for any and all activities that we can engage in to try to focus on repair yard type problems.

Mr. PICKETT. Thank you very much. Thank you, Mr. Chairman.

Mr. BATEMAN. Thank you, Mr. Pickett. The gentleman from California, do you have any questions?

Mr. HUNTER. Thank you, Mr. Chairman, and thanks for appearing before us, admiral, and this has been a very informative hearing. I understand you have a problem with the dollars that we took from the foreign roll-on/roll-off [RO/RO] conversion account, if you will, and applied to the national defense sealift fund [NDSF] account.

Admiral HERBERGER. Yes.

Mr. HUNTER. Why is that?

Admiral HERBERGER. I will explain. We, with the moneys—it was roughly \$70 million—we were going to be able, and we had three ships that we had had as a result of an request for proposal [RFP] on the list for about 18 months, and these were very attractive vessels in terms of speed and size and each one—we probably need another \$10 to \$15 million to convert to U.S. standards, so that was some additional work for some of our other yards. It is a bird in a hand. We were going to be able to get those three ships to add to the Ready Reserve roll-on/roll-off, whereas the national defense feature program, we do not see a vessel today that we could apply that moneys to. There may be vessels downstream that will come along. So my concern was that that money—I will not say disappear—but that money would go to something else and we had the opportunity to buy three fairly good size, reasonable speed, roll-on/roll-off—

Mr. HUNTER. How big were those RO/RO's?

Admiral HERBERGER. How big were they?

Mr. HUNTER. Yes, how many square feet?

Admiral HERBERGER. One hundred and eighty thousand square feet for one and the other two were around 160,000 square feet.

Mr. HUNTER. And you were going to get three of them?

Admiral HERBERGER. We were buying each of them for about \$20 to \$22 million and then we estimated \$32 million for each by the time we converted. So for \$96 million, \$70 million out of this year and then some additional money next year, we would have had three more additions to our roll-on and roll-off fleet. When we purchased the 12 2 years ago, the 12 roll-on/roll-off vessels, the average price was about \$22 million and then another \$10 million to convert.

Mr. HUNTER. Did it not cost a little more to convert, and I understand we had fairly big overruns on the conversion?

Admiral HERBERGER. On the overruns?

Mr. HUNTER. On the conversion cost.

Admiral HERBERGER. I will have to get back to you on the specifics. I am not aware of it. I have the average.

Mr. HUNTER. I think what we need to do or one thing that we have done is—you know the problem with buying foreign components in defense is, the argument for it is usually that you have a bird in the hand. Why do we not do it now and that will take care of the problem. And the problem is if you accept that argument, your industrial base tends to go downhill. You never catch up and it is never the right time to buy American. I think we need to be activists in terms of finding American ships that will do the job. I have understood this morning—I am going to ask for a briefing and maybe you could sit in on it.

Admiral HERBERGER. Yes.

Mr. HUNTER. Of an operator in the California/Alaskan trade that wants to engage in an NDF contract, and he has got American-built RO/RO's and put those national defense features on and engage in the program. One thing that has bothered me a little bit is it looks to me like the administration has not aggressively sought the American alternative. Typically, it has been easier and less painful to simply look at the vast inventory of foreign availabilities and say I would like one of those.

Admiral HERBERGER. My comment is that we have tried aggressively to get American-built. We had thresholds that we did not want to go below in terms of age of the vessels, the speed, and the size. But there were not too many in the fleet. That was the problem.

Mr. HUNTER. I understand. As I understand, these are new construction, that the line is interested in putting national defense features.

Admiral HERBERGER. Yes, I saw that proposal this week.

Mr. HUNTER. OK, you did see it.

Admiral HERBERGER. And I am encouraged by it. It is excellent.

Mr. HUNTER. If you will work with us and with the members and with the industry, I think we can—I think you are right in terms of it is important for the buy American folks to put up or shut up, but I think if we work with them, we can achieve some good results.

Admiral HERBERGER. Yes.

Mr. HUNTER. So let us see what we can do.

Admiral HERBERGER. I will be very happy to do that.

Mr. HUNTER. Thank you, Mr. Chairman.

Mr. BATEMAN. Thank you, Mr. Hunter. Admiral, you indicated in your statement that you had some optimism that the Senate would soon be acting in a positive way on the Maritime Reform Act. With that optimism, I trust the Maritime Administration will be able to move out smartly to implement it?

Admiral HERBERGER. We have been moving as far forward as we can move to be able to execute that new program just as quickly as possible. We will have to put it in the Federal Register for 30 days and my goal is to execute within 45 days. It will say in the language 90 days, but we are going to do it in 45 days.

Mr. BATEMAN. That is very encouraging. Mr. Pickett raised questions about the availability of skilled mariners to meet our national security requirements. In our Maritime Security Program, H.R. 1350, we have some provisions dealing with reemployment rights for mariners who were called in service in time of national emergency. Do you anticipate that that's going to be helpful in meeting our needs?

Admiral HERBERGER. Absolutely. One of the lessons learned from Desert Storm and Desert Shield is that we know of individuals, licensed engineers, and deck officers that wanted to sail in Desert Storm/Desert Shield but were unable to because their employers told them that if they left they would not have a job when they came back. And we know of individuals that that happened to. We absolutely need the reemployment rights similar to Reserve and I am very optimistic that we are going to get it. It is in your bill and the Senate is using your bill. It is long overdue. It will certainly solve an awful lot of problems if we have to activate on a large scale in the future.

Mr. BATEMAN. Admiral, returning to the OECD agreement, bring us up-to-date if you can on where that stands in terms of who has ratified, who has not ratified and what level of comfort you have, if it does not put you in a position of being indiscreet, that all the signatories to the agreement are in fact going to comply with the letter and spirit of the agreement?

Admiral HERBERGER. It is my understanding that of the 7 countries and/or 6 countries in the European Union [EU] representing those 15 countries, all but 2 have ratified, the EU and the others. The United States and Japan are the only two countries that have not ratified it. It is my understanding that the ratification documentation is through the Japanese Diet and it is informal; that they are waiting on us to see what we are going to do. We do know that within the EU countries that there is continual discussions regarding it, and reading the, again European Press. Some countries are having difficulties maintaining their shipbuilding capability. We have a case in Germany, one of the biggest yards filing for bankruptcy. So there is a constant flux of activity regarding it.

I do not know what will happen in Europe. I cannot even venture a guess. I do know that some of the countries in Europe are concerned about the—and I was at a conference out in San Diego just 2 weeks ago where a number of the world experts in assessing shipbuilding were concerned about the increasing buildup in the Far East. The Japanese again trying to maintain their lead. The Koreans certainly with the potential to increase capacity and stay ahead of the Japanese. And China threatening, we are coming in. We want to get into this, even though they only have about 6 percent of the building today, they want to increase that share.

So there is this huge amount, 65 to 70 percent of the shipbuilding orders are in the Far East. And now what is happening in Europe is Europe's concern and they are already beginning to suffer the downturn as far as they are concerned, due to this increased activity in the Far East.

The United States, certainly in a session that I have been in, people are saying you can get in and go toe-to-toe with the Europeans in a lot of these areas because your labor rates are less, your productivity is improving, you have got that skilled workforce. So that is the area that you could target for the time being to get back into that type of shipbuilding that they are doing in Europe. To go head to head with the Far East where they are building the larger ships, over 70,000 tons at this particular time, I think would be pretty difficult. We are again going to have to establish ourselves back into this commercial shipbuilding arena. And I think in some of the projects that we have been engaged in so far, we are getting back in slowly but surely.

Mr. BATEMAN. But in terms of the agreement, am I correct that the Koreans are not a party to the agreement?

Admiral HERBERGER. That is right.

Mr. BATEMAN. The Chinese would not be party to the agreement?

Admiral HERBERGER. The Koreans are not. The Chinese are not. Eastern Europe is not. Poland and some of those Eastern European yards again are trying because it is a good basic industry, are trying to get back into shipbuilding in a truly commercial way.

Mr. BATEMAN. So a good part of the shipbuilding nations of the world would be unaffected by the terms of the agreement?

Admiral HERBERGER. That group of seven, including the EU represented about 85 percent of the shipbuilding capacity. That was a significant amount of the total capacity. So the other 15 percent though could be represented in—

Mr. BATEMAN. A large part of that capacity is Japanese who at least pro forma or take the position that they have never subsidized and so the agreement will not change anything they previously have been doing. Some of us, shall I say, are somewhat skeptical of that. What is your view?

Admiral HERBERGER. The Japanese do maintain that they do not support their industry and certainly their government does not support their industry. And therefore, the OECD restrictions or the new OECD standards would not necessarily impact on their shipbuilding area.

Mr. BATEMAN. But it would impact upon us, our title XI loan guarantees.

Admiral HERBERGER. Yes, the OECD—

Mr. BATEMAN. Reducing the amount which could be loaned as well as the period of time for which it could be loaned.

Admiral HERBERGER. Yes, we would have to go from the 25-year loan guarantee to a 12-year and from 87.5 percent coverage to 80 percent.

Mr. BATEMAN. Mr. Taylor, do you have any further questions?

Mr. TAYLOR. Thank you, Mr. Chairman. Admiral, Mr. Johnston, who should be a Democrat, just asked me to ask you something and I think it is a great question. What if a young person going to buy their home for the first time was suddenly told that instead of being able to borrow 87 percent of the cost of that home and to pay for it over 25 years, they could now only borrow 80 percent and pay for it over 12 years? I mean that is a very, very drastic change, an incredible increase in what has to be paid back each year. We are finally getting some good things going, I think to a very large extent, and I am one of many fathers of title XI and there has been a whole series of us. Why now when we are finally getting something going, would we even consider a change?

Admiral HERBERGER. The Title XI Program as has been stated by the Chairman is the only program that we have now to use to counter the significant direct and indirect support that the foreign countries get. The direct subsidy in Europe has come down to 9 percent direct subsidy, plus soft loans, and there are other areas that we know, research and development [R&D] support. There is significant support. You remember the original intent of OECD was to begin to level the playing field in this area of shipbuilding to start causing those foreign countries that now provide substantial support to their industries to pull back from some of that support. The only thing that we had at the time which came in and just in time was the title XI loan guarantee program, plus the Maritech Program and these other things that were just starting.

And I think that is the intent of OECD is that in the absence of an agreement, that there would be some leverage, some leverage on those countries that are engaged in shipbuilding, that the unbridled direct support and indirect support that these foreign countries would give their shipyards would make it truly very difficult for our shipbuilding industry to compete. As you recall, that was the premise behind OECD. And I agree that the OECD standards are changing, but all the countries are supposed to be on that same level playing field and that was the intent of the agreement.

Mr. TAYLOR. To the point, Admiral, since they were supposed to be on the same level playing field, how many of the European countries has passed the necessary implementing legislation local?

Admiral HERBERGER. The EU representing 16 have ratified the agreement.

Mr. TAYLOR. I understand that, but that's not my question.

Admiral HERBERGER. You mean when it goes into force?

Mr. TAYLOR. Have the Spaniards, have the French, have the Germans actually passed within their own legislative bodies implementing legislation?

Admiral HERBERGER. I do not know. I will have to get back to you on that.

Mr. TAYLOR. Would you please and the same question with the Japanese.

Admiral HERBERGER. The Japanese have not ratified it yet.

Mr. BATEMAN. I think it is useful here to point out that even if they ratified and implemented the OECD agreement as negotiated and as it is being signed, there are exceptions for the Spanish, Belgians, Portuguese, German, and French shipyards for a transition period where they can continue to do things after the agreement goes into effect. Whereas, there are no transition provisions for the American shipyards which just boggles my mind how we would have been able to agree to something that gave others these transition provisions while our shipbuilders got none. Especially, in view of the fact that other than title XI which is our other reason, we have not been subsidizing shipbuilding and all of them have. So we needed transition provisions much more than they did.

Admiral HERBERGER. What they did was put a standstill in and then the fact that we had just title XI, that was the only area that would impact and it would impact on the Maritech Program too because the R&D would have to be reduced from 50 percent matching funds to 25.

Mr. BATEMAN. To make matters even worse, after the agreement was negotiated and the French were bulking at going forward with it, they got some \$400 million in transition programs that all of the sudden were found for the French within the context of the agreement which originally had no such provisions. Very interesting development and something no one has been able to answer for me. Just what is that \$400 million transition program that was added to the agreement for the benefit of the French shipbuilding industry?

Mr. TAYLOR. Mr. Chairman, if I may, just one last question.

Mr. BATEMAN. Sure.

Mr. TAYLOR. Admiral, I had one further major concern with the OECD and that is how is it going to effect our cabotage laws or what is commonly referred to as the Jones Act, with regard to Coast Guard, Commerce, with regard, for example, to our efforts to finally close the loopholes in the cruise ship industry where we all know that about 90 percent of the world's people who get on cruise ships are Americans and yet even the ones that call on our ports do not even make a true foreign voyage on foreign flag vessels. How will it effect inland towing as far as Jones Act laws? I think that there is incredible opportunity for the law of unintended consequences to happen here, all at the detriment of the American



maritime industry. And I would like some answers to that before this goes any further.

Admiral HERBERGER. The Jones Act offshore would be effected. The inland waterway type craft would not, due to size, and non-barges would not be effected.

Mr. TAYLOR. The coast wide trade, how about that?

Admiral HERBERGER. The coast wide trade, during the transition, the 3-year transition, there is a threshold of 250,000 gross tons that could be built without violating and the Jones Act shipping would come under the OECD restrictions.

Mr. TAYLOR. How about the trade, for example, and Mr. Chairman, this is absolutely the last question, for example, the trade between the East Coast, the run between the East Coast, Puerto Rico, Guantanamo—

Admiral HERBERGER. That would be impacted. It is what they call the home bill provision and that does come under OECD, would come under the new OECD.

Mr. TAYLOR. Thank you for being so generous with your time, Mr. Chairman.

Mr. BATEMAN. Indeed. Further on this OECD, I am curious as to whether an American ship operator would be free to enter the coastline trade of France or Spain or any other coastal state in Europe?

Admiral HERBERGER. Today there are 40 countries, most of the maritime nations that have cabotage laws, and I certainly cannot speak for what those countries will do. But there are those 40 countries that represent most of the nations of the world that have oceans that abut their land mass that have cabotage laws that reserve shipping within those areas to their home fleets, when they have home fleets, when they have national fleets. In some cases, they do not.

Mr. BATEMAN. I do not know if I need to remind you but others ought to be reminded that even Adam Smith regarded protection of one's maritime capability as being something not subject to free, unfettered, free trade. We have had such protections for our coastal trade and inland waterways from the earliest days of the republic. It seems to me that we would undermine our maritime capabilities if we are going to do away with them.

Any further questions of Admiral Herberger? Admiral, we thank you very much for appearing this morning and appreciate your testimony and find much in it that is encouraging. Look forward to you getting your budget and hope that you and we will not experience any disappointments as it comes forth.

Admiral HERBERGER. Thank you, Mr. Chairman.

Mr. BATEMAN. Thank you again.

[Pause.]

Mr. BATEMAN. The panel will resume its hearing. We have the pleasure this morning of having before us as principle witnesses Secretary Joe Reeder, who is the Chairman of the Board of Directors of the Panama Canal Commission and we are very pleased to have you back again, and equally pleased to have again before the committee the Honorable Gilberto Guardia, who is the Administrator of the Panama Canal Commission. We are very pleased to hear from you this morning and I will leave it to you all to intro-

duce your colleagues at the table or elsewhere in the committee room.

**STATEMENT OF JOE R. REEDER, CHAIRMAN, BOARD OF DIRECTORS, PANAMA CANAL COMMISSION**

Mr. REEDER. Thank you, Mr. Chairman, members of the Merchant Marine Panel. My name is Joe Reeder. I am pleased to report today on the performance of the Panama Canal over the past year and its prospects for the future. After the President has transmitted his budget to Congress, we would be happy to address fiscal year 1997 budget issues.

Mr. Chairman, with your permission, I would summarize my written testimony for the Panel and have submitted a longer written version.

First, Mr. Chairman, I would like to express my appreciation to you and to the members of this Panel for the valuable assistance that you have provided over the past 12 months. Your support, and that of your dedicated staff, have moved the transition process forward during a record-breaking year. We very much appreciate once again your personal visit with Mrs. Bateman and personal visit of Congressman Taylor down to the canal. I hope you will come back.

We are especially grateful for your efforts with the Panama Canal Commission [PCC] Government corporation title of the defense authorization bill which was signed in the law February 10. The canal and our Nation's maritime interests enjoy a history of bipartisan support and this Panel has continued that tradition. For that, we thank you.

Today marks my second appearance before this Panel and before you as Chairman and I believe it is the fifth or sixth appearance for our Administrator. It may be his last. He has announced his retirement, but Mr. Guardia will testify after me with your permission.

We are ably assisted today by three members of the Commission's management team, Joe Cornelison, Deputy Administrator who is on my left; and John Mills, the Secretary of the Commission, right behind me; and Chief Financial Officer, Norb Kraegel, also joins us. We also are pleased to have Vince Ryan, one of our board members who happens to be here today.

Mr. Chairman, permit me to begin by paying special tribute to the man on my right, Gilberto Guardia, known to all of us as Cholo. Over the last 6 years, he has served as the first Panamanian Administrator during which time he has inspired the Commission, molded management, and the work force into what I believe everyone agrees is a world-class team. Mr. Guardia's integrity, his foresight, and his leadership have established the proud, solid organization that sets the high standard for Panama in the world in maritime services.

Last October, Mr. Guardia announced his departure from the Commission so that a successor could join the team well before the transfer of the canal and continue well into the 21st century. I might add that he did this only after the President attempted, the President of Panama attempted without success, to prevail upon Mr. Guardia to agree to serve beyond the year 2000, the turn of the century. President Balladares has asked Mr. Guardia and Mr.

Guardia has agreed to remain in his position until his replacement takes position.

I also would like to say a few things about Joe Cornelison, the new Deputy Administrator, brand new. In the sense that he has been there about 6 months, he probably feels like he has been there a few years. But he is a graduate of West Point and Georgetown Law School. In his prior life, he oversaw a multibillion dollar litigation, procurement issues, fraud prevention, environment and organizational management. He also served as the U.S. Army's senior lawyer in Panama from 1985 to 1989 and already has made an impressive impact as the focal point for the managing of the transition activities within the Commission.

On my left is John Mills, the newest member of the team, who was selected by the board this past October as Secretary of the Panama Canal Commission based here in Washington, DC. No stranger to Panama or to the Commission, Mr. Mills is another outstanding addition to our team. Before he retired in December from the Army in the rank of full colonel, Mr. Mills served as the Executive Assistant to the Assistant Secretary of the Army for Civil Works, and worked very closed with the Commission's board.

He also served with the U.S. Southern Command in Panama from 1988 to 1991, managing treaty-implementation planning in coordination with the Commission. His nearly 30 years' experience in the U.S. Army Corps of Engineers includes combat leadership and extensive management of major projects throughout the world. We are very fortunate also to have him as a member of the team.

I would next like to discuss what I would characterize as the three challenges of the canal. Three challenges that command our focus. First, to maintain the canal's record of continuity and excellence in day-to-day business operations. The canal has operated without fail since 1914 as a world-class resource to international shipping, through two World Wars and Operation Just Cause. It has been down 1 day in that 81-year history, 1 day due to a Gaillard Cut slide in 1915.

Mr. Chairman, I might say that this is a record that would make Cal Ripken proud and one that we are going to keep through all of the changes that lie ahead for us. That is challenge No. 1.

Challenge No. 2 is to make and carry out strategic plans for the canal's long-term future. The Administrator will address these long-term efforts. Now while the first two challenges are common to every business operation, the canal's third challenge truly is unique—to manage the canal's transfer to Panama over the next less than 4 years. This intricate and complex transaction is without precedent and one that requires that we get it right the first time. We are not going to have a second try at this one. When you consider these three challenges together, you can appreciate the serious but exciting times ahead for the Commission, for the board, and for the work force, and why we need this Panel's assistance to ensure success.

I would like next to discuss briefly recent developments and tell you how we are positioned to meet the challenges I have just identified.

First, the PCC legislation this Panel just steered into law is a cornerstone and a framework for the changes we need to make, and

we thank you again. We will soon ask you to consider legislation that would build upon our new status as a Government corporation. President Clinton and Panamanian President Perez-Balladares demonstrated their strong interest in the canal when they met this past September. Both endorsed intensified treaty transition efforts. This direction sets the tone for our efforts.

Our intensified efforts were underscored by President Perez-Balladares attendance at the board's meeting this past October here in Washington. The President commended the board and Mr. Guardia for the many ongoing transition efforts initiated and pledged the full support of his government to ensure those efforts are successfully concluded. This board is more active than any of its predecessors have been and well it should be, given that we are in the last 4 years of its existence. Last April the board increased the number of meetings from four to eight per year and we just finished our second meeting this calendar year last Friday.

I cannot overemphasize to this Panel just how invaluable the increased transition activities of our management and binational board are both to Panama and to the United States. As you know, the hard work and the heavy lifting are in the details and not in the press releases. And I think this team has truly risen to the challenge. The Government of Panama also is stepping up its pace. It has convened a special transition commission composed of a comprehensive roster of people key to Panama's transition efforts. The result is streamlined and accountable coordination of both nations' efforts.

During the past year, a comprehensive treaty milestone plan about 25 pages in length was finalized which identifies in detail each of the myriad tasks essential to the smooth transition of the canal. This detailed document is used to track the status and progress of each discrete project connected to the transition. And I might add, that on the time lines oftentimes the time lines are accelerated; sometimes they are slipped, but more than 50 percent of the time they have been accelerated to date.

Let me now address the vital canal assets I consider the three pillars of success for the canal. The canal's work force, its physical infrastructure, and its customers, the shippers.

First, the work force. The canal's 8,000-plus permanent employees and 1,000 temporary employees have always been key to the canal's worldwide reputation for excellence. It will be their skills, their knowledge, and their professionalism that will carry the canal into the next century and will train the next generation of younger Panamanians to carry the canal far beyond the transition.

Recruiting, training, retaining, and caring for this world-class work force is one of our top priorities. The board and management are now studying new ways to reward productivity and performance. Several of our board members are enormously successful businessmen with firsthand experience in designing private sector incentive programs. Our fiscal year 1997 legislative proposal would allow the Commission more flexibility in designing an incentive plan that, first, optimizes recognition for performance; and second, gives management a better means of ensuring excellence through the transition in positions that are of critical importance to canal operations.

Because of the importance of compensation policy to the work force, the Commission is studying alternatives to traditional Federal pay policy, alternatives that reflect the Commission's special needs and competitive posture. The current pay framework has not been revised since 1979. It was designed in large part to protect the interests of the mainly U.S. work force over the changeover in 1979 from the Panama Canal Company to the Panama Canal Commission.

To do this the 1979 act effectively locked in Commission pay policy to general U.S. Government pay policy, including annual U.S. cost-of-living adjustments. Some significant pay disparities have resulted over the years creating over- and under-compensated segments of the work force relative to the local labor market. The board and management believe the current lockstep rates under the U.S. pay policy are not consistent with sound business practices, and in some instances could actually undermine the canal's ability to recruit the best and brightest work force both now and post-1999.

Another personnel related challenge for the transition will be the selective retention and promotion of key personnel who are young but experienced enough to serve well beyond the 2000 transition. The Commission is now studying what tools could be used to open up appropriate positions for these critical employees.

We turn now to the second pillar, the infrastructure. The physical infrastructure of the canal is the second vital pillar. The Commission honors this 81-year-old engineering marvel with the best maintenance and care we know how to provide.

Because of the canal's strong performance in 1995, its record-breaking performance, the Commission made \$8 million in net revenues which by treaty are to be paid or were to be paid to the Government of Panama. At the request of President Perez-Balladares, however, the \$8 million has been reinvested in the Commission's capital program. This, I believe, demonstrates Panama's long-term commitment to the canal's future.

To provide an updated baseline of data, the board has commissioned a comprehensive examination of the canal's infrastructure. By a unanimous 9 to 0 vote, the board decided to award the contract to the Army Corps of Engineers. A preliminary draft report is due by June 15, 1996. And I might add that that 9-0 vote, to me it is very impressive in light of the fact that we had the entire world from which competition came, including the Peter Kiewits, the Brown & Roots of the world.

The board also has called for analysis of the canal's business base with a growth strategy study. This study will explore potential opportunities to use the canal assets to add areas of revenue-producing activity both in core and noncore business activities.

The third pillar is the canal's reason for existence, the customers. The Commission faces increasing competition as intermodal transportation becomes more cost-competitive. Efficient operation and customer satisfaction are more important than ever before to the canal. As with any other business facing competition, the Commission must listen keenly and act responsively to the needs and concerns of its customers. It is especially important to communicate the ongoing progress of the transition. Everyone fears change. We

feel that we are implementing the change in the best way possible and the only thing that will get in our way is our inability effectively to communicate exactly what we are doing to implement a smooth transition.

The Panama Canal Commission and Panama's Transition Commission hosted a seminar just this past Friday on the transition. Attending were canal customers, Panamanian businessmen, news media and civic leaders. This was our first joint briefing in Panama. And it is part of our broad outreach effort to create a consensus and support of the changes which will be necessary to a successful transition. We also want to build confidence in the future of the canal.

We have been very active to keep in touch with customers. Board member Jorge Ritter accompanied President Balladares to the Far East to meet with canal customers. Panama's Ambassador to the United States, Ricardo Arias and I, also traveled recently to meet with shippers and government officials of Brazil, Ecuador and Peru. Two of those are the largest customers in Latin America of the Panama Canal—Ecuador, being a 67 percent of all of its maritime product goes to the canal, and Peru, 43 percent of all of its maritime product. We continue to learn firsthand the concerns of our international customers.

The Commission also is studying how further flexibility could allow the Commission to become more aggressive in these efforts in the final critical years of the transition.

We also are making a concerted effort to intensify public relation's efforts both with customers abroad and within the country of Panama. We are quite pleased with the progress thus far, working directly, for example, with Panama's Minister of Education. We are providing materials on the canal through the schools to the Panamanian children, so that they may gain a deeper knowledge and appreciation of the waterways so simple to their country's identity and economy. The managers, engineers, and pilots who will keep the canal world class in the 21st century are in elementary school and high school today. These kids are the future of the canal.

Finally, I would like to salute the outstanding employees of the canal. More than anything else, their individual dedication and professionalism are responsible for the canal's remarkable 81-year record of excellence in the service of world commerce. The Binational Board and Commission are doing everything possible to maintain the highest level of training and professionalism in the work force as we prepare for operations in the next century.

In closing, let me express again, Mr. Chairman, on behalf of the board and the entire work force, all of our deepest appreciation for Mr. Guardia's enormous contributions to the management of the canal. As I told you the President of Panama tried to prevail on him and could not do that, to stay beyond the year 2000. The Panama Canal and all of us owe him a great debt for the successful preparation for the transfer thus far, but mostly for his wisdom and his integrity and his leadership. I also thank him today in your presence for selflessly holding off on his departure until we can get a successor in place.

Mr. Chairman, this concludes my remarks. If it pleases the Panel, I might suggest that Mr. Guardia present his statement and

then we would all be available to answer any questions that the Panel may have.

[The prepared statement of Mr. Reeder follows:]

**FISCAL YEAR 1997**



**STATEMENT OF THE CHAIRMAN  
OF THE BOARD OF DIRECTORS  
PANAMA CANAL COMMISSION**

**BEFORE THE  
NATIONAL SECURITY COMMITTEE  
SPECIAL OVERSIGHT PANEL  
ON THE MERCHANT MARINE  
U.S. HOUSE OF REPRESENTATIVES**

**10:00 A.M., MARCH 5, 1996**

**ROOM 2337 RAYBURN HOUSE OFFICE BUILDING**



## INTRODUCTION

MR. CHAIRMAN, MEMBERS OF THE MERCHANT MARINE PANEL. I AM JOE R. REEDER, CHAIRMAN OF THE BOARD OF DIRECTORS OF THE PANAMA CANAL COMMISSION. I AM PLEASED TO REPORT TODAY ON THE PERFORMANCE OF THE PANAMA CANAL OVER THE PAST YEAR AND ITS PROSPECTS FOR THE FUTURE. WE WOULD LIKE TO OUTLINE OUR PLANS AND EXPECTATIONS FOR FISCAL YEAR 1997 AND REPORT ON OUR TRANSITION EFFORTS. AFTER THE PRESIDENT HAS TRANSMITTED HIS BUDGET TO THE CONGRESS, WE WOULD BE HAPPY TO ADDRESS OUR FISCAL YEAR 1997 BUDGET.

AT THE OUTSET, MR. CHAIRMAN, I EXPRESS MY APPRECIATION TO YOU AND THE MEMBERS OF THIS PANEL FOR THE VALUABLE ASSISTANCE YOU HAVE PROVIDED SINCE THE PANEL ASSUMED OVERSIGHT OF THE COMMISSION'S PROGRAMS AND OPERATIONS. YOUR SUPPORT, AND THAT OF YOUR DEDICATED STAFF, HAVE HELPED MOVE FORWARD THE TRANSITION PROCESS DURING A RECORD-BREAKING YEAR FOR THE CANAL.

WE ARE ESPECIALLY GRATEFUL FOR YOUR STEADFAST AND SKILLFUL STEERING OF THE PCC GOVERNMENT CORPORATION TITLE OF THE DEFENSE AUTHORIZATION BILL SIGNED INTO LAW ON FEBRUARY TENTH. THE CANAL AND OUR NATION'S MARITIME INTERESTS ENJOY A HISTORY OF BIPARTISAN SUPPORT, A TRADITION THIS PANEL HAS CARRIED FORWARD.

TODAY MARKS MY SECOND APPEARANCE BEFORE YOU AS CHAIRMAN OF THE BOARD. MR. GILBERTO GUARDIA, THE COMMISSION'S ADMINISTRATOR, IS ALSO TESTIFYING BEFORE THE PANEL AND WILL CONCENTRATE ON THE CANAL'S OPERATIONAL PERFORMANCE.

WE ARE ABLY ASSISTED BY TWO NEW MEMBERS OF THE COMMISSION'S MANAGEMENT TEAM, MR. JOSEPH CORNELISON, THE DEPUTY ADMINISTRATOR, AND MR. JOHN MILLS, THE SECRETARY OF THE PANAMA CANAL COMMISSION. CHIEF FINANCIAL OFFICER NORBERT KRAEGEL, AN EXPERIENCED VETERAN OF COMMISSION MANAGEMENT WHO HAS PARTICIPATED IN PAST HEARINGS, ALSO JOINS US.

I PAY SPECIAL TRIBUTE BEFORE YOU TODAY TO GILBERTO GUARDIA. AS THE FIRST PANAMANIAN ADMINISTRATOR, HE HAS, OVER THE PAST SIX YEARS, INSPIRED THE COMMISSION, MOLDING MANAGEMENT AND THE WORKFORCE INTO A WORLD-CLASS TEAM. MR. GUARDIA'S INTEGRITY, FORESIGHT AND LEADERSHIP HAVE ESTABLISHED A FIRM FOUNDATION FOR THE PROUD, SOLID ORGANIZATION THAT IS SETTING THE HIGHEST STANDARDS FOR PANAMA AND THE WORLD IN MARITIME SERVICES.

LAST OCTOBER, MR. GUARDIA, KNOWN TO US AFFECTIONATELY AS "CHOLO," ANNOUNCED HIS DEPARTURE FROM THE COMMISSION SO THAT HIS SUCCESSOR

COULD JOIN THE TEAM WELL BEFORE THE TRANSFER OF THE CANAL, AND THUS ENSURE CONTINUITY INTO THE 21ST CENTURY. AT THE REQUEST OF PANAMANIAN PRESIDENT BALLADARES, MR. GUARDIA WILL REMAIN IN POSITION UNTIL HIS SUCCESSOR IS CONFIRMED AND IN PLACE.

TO MR. GUARDIA'S RIGHT IS THE COMMISSION'S NEW DEPUTY ADMINISTRATOR, JOSEPH CORNELISON, A GRADUATE OF WEST POINT AND GEORGETOWN LAW SCHOOL, WHO SERVED A 26-YEAR MILITARY CAREER WITH DISTINCTION. HE OVERSAW MULTI-BILLION DOLLAR LITIGATION, PROCUREMENT, FRAUD PREVENTION, ENVIRONMENT AND ORGANIZATION MANAGEMENT. HE ALSO SERVED AS THE U.S. ARMY'S SENIOR LAWYER IN PANAMA FROM 1985-1989. IN HIS SHORT TENURE WITH THE COMMISSION, MR. CORNELISON HAS ALREADY MADE AN IMPRESSIVE IMPACT. IN ADDITION TO HANDLING MYRIAD RESPONSIBILITIES, JOE IS THE FOCAL POINT FOR MANAGING TRANSITION ACTIVITIES WITHIN THE COMMISSION.

ON MY LEFT IS JOHN MILLS, WHO WAS UNANIMOUSLY SELECTED BY THE BOARD LAST OCTOBER AS SECRETARY OF THE PANAMA CANAL COMMISSION.

NO STRANGER TO PANAMA OR TO THE PANAMA CANAL COMMISSION, MR. MILLS IS ANOTHER OUTSTANDING ADDITION TO OUR TEAM. BEFORE RETIRING IN DECEMBER FROM THE ARMY IN THE RANK OF COLONEL, MR. MILLS SERVED AS THE EXECUTIVE ASSISTANT TO THE ASSISTANT SECRETARY OF THE U.S. ARMY FOR

CIVIL WORKS, AND WORKED VERY CLOSELY WITH THE COMMISSION'S BOARD. HE ALSO SERVED WITH THE U.S. SOUTHERN COMMAND IN PANAMA FROM 1988 TO 1991, MANAGING TREATY-IMPLEMENTATION PLANNING IN COORDINATION WITH THE COMMISSION. HIS NEARLY 30 YEARS' EXPERIENCE IN THE U.S. ARMY CORPS OF ENGINEERS INCLUDES COMBAT LEADERSHIP AND EXTENSIVE MANAGEMENT OF MAJOR PROJECTS AROUND THE WORLD. MR. MILLS IS EMINENTLY QUALIFIED FOR THE POSITION OF SECRETARY, AND WE ARE FORTUNATE THAT HE IS PART OF THE TEAM THAT WILL MAKE THE HISTORIC TRANSFER OF THE CANAL TO PANAMA AT THE END OF THE CENTURY A REALITY.

### THE THREE CHALLENGES

THREE CHALLENGES COMMAND THE COMMISSION'S FOCUS. FIRST: TO MAINTAIN THE CANAL'S RECORD OF CONTINUITY AND EXCELLENCE IN DAY-TO-DAY BUSINESS OPERATIONS. OPERATING WITHOUT SIGNIFICANT INCIDENT SINCE 1914 AS A WORLD-CLASS RESOURCE TO INTERNATIONAL SHIPPING, THROUGH TWO WORLD WARS AND OPERATION JUST CAUSE, THIS IS A RECORD THAT WOULD MAKE CAL RIPKEN PROUD.

SECOND: TO FORMULATE AND BEGIN TO IMPLEMENT STRATEGIC PLANS FOR THE CANAL'S LONG-TERM FUTURE. OUR CAPITAL IMPROVEMENT AND MAINTENANCE PROGRAMS LOOK OUT TWENTY YEARS INTO THE FUTURE.

WHILE THE FIRST TWO CHALLENGES ARE COMMON TO ALL BUSINESSES, THE CANAL'S THIRD CHALLENGE IS UNIQUE: TO MANAGE THE CANAL'S TRANSFER TO PANAMA OVER THE NEXT FOUR YEARS. WITHOUT PRECEDENT, THIS INTRICATE AND COMPLEX TRANSACTION REQUIRES THAT WE GET IT RIGHT THE FIRST TIME BECAUSE WE WILL NOT HAVE A SECOND CHANCE. WHEN YOU CONSIDER THESE THREE CHALLENGES TOGETHER, YOU CAN APPRECIATE THE SERIOUS BUT EXCITING TIMES AHEAD FOR OUR AGENCY, AND WHY WE NEED YOUR HELP TO ENSURE SUCCESS.

#### RECENT DEVELOPMENTS

LET ME OUTLINE BRIEFLY HOW WE ARE POSITIONED TO MEET THESE CHALLENGES.

FIRST, THE PCC LEGISLATION JUST ENACTED IS A CORNERSTONE THAT PROVIDES A FRAMEWORK FOR THE CHANGES WE NEED TO MAKE, AND WE THANK YOU AGAIN WE WILL SOON ASK YOU TO CONSIDER LEGISLATION THAT, AS ANTICIPATED, WOULD BUILD UPON OUR NEW STATUS AS A GOVERNMENT CORPORATION. THROUGH THIS TESTIMONY, HOWEVER, WE WILL HIGHLIGHT SEVERAL BROAD AREAS WHERE WE ARE STUDYING REVISIONS IN THE ORIGINAL 1979 LAW

SECOND, EARLY 1995 SAW THE DEPARTURE OF FOUR DISTINGUISHED PANAMANIAN BOARD MEMBERS AND ONE U.S. MEMBER WHOSE TENURES SPANNED FROM FOUR TO ELEVEN YEARS. LAST SPRING, THE BOARD WELCOMED PANAMA'S NEW REPRESENTATIVES AND ONE NEW U.S. REPRESENTATIVE TO THIS BI-NATIONAL BOARD.

THE COMMISSION'S BOARD OF DIRECTORS IS MORE ACTIVE THAN EVER AND READY FOR THESE CHALLENGES. TO ADDRESS THE MANY ACCELERATED TASKS AND RESPONSIBILITIES ASSOCIATED WITH TRANSFERRING THE CANAL TO PANAMA BY THE YEAR 2000, THE BOARD LAST APRIL INCREASED THE NUMBER OF MEETINGS FROM FOUR TO EIGHT PER YEAR. FOUR OF THOSE MEETINGS HAVE BEEN INCREASED FROM TWO TO THREE DAYS TO ACCOMMODATE THE INCREASED ACTIVITIES IN STUDIES, PLANNING, AND EXECUTION OF JOINT U.S./PANAMA TRANSITION ACTIONS.

I MUST EXPRESS TO THIS PANEL MY VIEW OF HOW INVALUABLE BOTH THE INCREASED PARTICIPATION OF OUR BI-NATIONAL BOARD, AND THE INCREASED PACE OF TREATY IMPLEMENTATION, IS TO BOTH PANAMA AND THE U.S. AS YOU WELL KNOW, THE HARD WORK AND THE HEAVY LIFTING ARE IN THE DETAILS, NOT THE PRESS RELEASES, AND OUR BOARD IS RISING TO THAT CHALLENGE. FOR ME IT IS TRULY INSPIRING TO WATCH, SINCE EACH OF THESE BOARD MEMBERS HAS A VERY BUSY LIFE AND CAREER INDEPENDENT OF THE CANAL.

THIRD, PRESIDENT CLINTON AND PANAMANIAN PRESIDENT BALLADARES DEMONSTRATED THEIR STRONG INTEREST IN THE CANAL DURING THEIR MEETING LAST SEPTEMBER. BOTH ENDORSED INTENSIFYING THE TREATY TRANSITION EFFORTS CURRENTLY UNDERWAY AND ENCOURAGED FURTHER PROGRESS. THEIR DIRECTION HAS SET THE TONE FOR OUR EFFORTS.

THIS NEW ENERGY AND URGENCY WERE UNDERSCORED BY PRESIDENT BALLADARES' ATTENDANCE AT THE BOARD'S MEETING LAST OCTOBER HERE IN WASHINGTON. THE PRESIDENT COMMENDED THE BOARD AND MR. GUARDIA FOR THEIR PROGRESS IN MAKING THE SEAMLESS TRANSITION A REALITY, AND PLEDGED THE FULL SUPPORT OF HIS GOVERNMENT FOR CONTINUED SUCCESS.

PANAMA HAS CONVENED A SPECIAL TRANSITION COMMISSION COMPOSED OF A COMPREHENSIVE ROSTER OF PEOPLE KEY TO PANAMA'S TRANSITION EFFORTS. THROUGH THIS COMMITTEE, THE GOVERNMENT OF PANAMA IS INTERACTING SMOOTHLY WITH THE PANAMA CANAL COMMISSION'S CENTRALIZED TRANSITION EFFORTS. THE RESULT IS STREAMLINED AND ACCOUNTABLE COORDINATION OF OUR TWO NATIONS' EFFORTS.

FINALLY, A SIGNIFICANT OVERARCHING BOARD ACCOMPLISHMENT THIS PAST YEAR WAS THE ADOPTION OF A TREATY MILESTONE PLAN, WHICH IDENTIFIES THOSE ELEMENTS ESSENTIAL TO THE SMOOTH TRANSFER OF THE CANAL. THE

STATUS AND PROGRESS OF THE VARIOUS TASKS INCORPORATED IN THIS IMPORTANT DOCUMENT ARE CLOSELY REVIEWED AT EACH MEETING OF THE BOARD.

### **SPECIFIC ISSUES REGARDING VITAL CANAL ASSETS**

LET ME NOW ADDRESS THE VITAL CANAL ASSETS I CONSIDER THE "THREE PILLARS" FOR THE SUCCESS OF THE CANAL - THE CANAL'S WORKFORCE, ITS PHYSICAL INFRASTRUCTURE, AND OUR CUSTOMERS.

### **THE CANAL'S WORKFORCE**

THE CANAL'S 8,000- PLUS EMPLOYEES HAVE ALWAYS BEEN KEY TO THE CANAL'S WORLDWIDE REPUTATION FOR EXCELLENCE IN SERVICE. IT WILL BE THEIR SKILLS, KNOWLEDGE AND EXPERIENCE THAT WILL CARRY THE CANAL INTO THE NEXT CENTURY, AND WILL TRAIN THE NEXT GENERATION OF YOUNGER PANAMANIAN TO CARRY THE CANAL FAR BEYOND THE TRANSITION.

RECRUITING, RETAINING, TRAINING AND CARING FOR THIS WORLD-CLASS WORKFORCE IS ONE OF OUR TOP PRIORITIES. THE BOARD IS NOW STUDYING NEW WAYS TO REWARD PRODUCTIVITY AND PERFORMANCE. SEVERAL OF OUR BOARD MEMBERS ARE ENORMOUSLY SUCCESSFUL BUSINESSMEN WITH FIRST-HAND



EXPERIENCE IN DESIGNING PRIVATE-SECTOR INCENTIVE PROGRAMS. OUR FY 1997 LEGISLATIVE PROPOSAL GIVES THE COMMISSION MORE FLEXIBILITY TO DESIGN AND IMPLEMENT A PLAN SUITED TO ITS UNIQUE NEEDS AND TO THE TRANSITION.

BECAUSE OF THE IMPORTANCE OF COMPENSATION POLICY TO THE WORKFORCE, THE COMMISSION HAS UNDERTAKEN STUDIES OF ALTERNATIVES WHERE THE COMMISSION COULD BEGIN TO THINK BEYOND TRADITIONAL FEDERAL PAY POLICY AND REFLECT THE COMMISSION'S SPECIAL NEEDS AND COMPETITIVE POSTURE. THE CURRENT PAY FRAMEWORK HAS NOT BEEN REVISED SINCE 1979. IT WAS DESIGNED ORIGINALLY, IN LARGE PART, TO PROTECT THE INTERESTS OF THE MAINLY U.S. WORKFORCE OVER THE CHANGEOVER IN 1979 FROM THE PANAMA CANAL COMPANY TO THE PANAMA CANAL COMMISSION.

TO ACCOMPLISH THIS, THE 1979 ACT EFFECTIVELY LOCKED IN COMMISSION PAY POLICY TO GENERAL U.S. GOVERNMENT PAY POLICY, INCLUDING ANNUAL U.S. COLA-LINKED PAY ADJUSTMENTS. THE RESULT, OVER THE YEARS, HAS BEEN FAIRLY SIGNIFICANT PAY DISPARITIES, WITH VARIOUS SEGMENTS OF THE WORKFORCE NOW BEING OVER OR UNDERCOMPENSATED RELATIVE TO THE LOCAL LABOR MARKET. THE BOARD, WHILE STILL STUDYING THE ISSUE, BELIEVES THE CURRENT LOCKSTEP TIE TO U.S. FEDERAL PAY POLICY IS OBSOLETE AND INCONSISTENT WITH SOUND BUSINESS PRACTICES.

ONE OTHER PERSONNEL-RELATED CHALLENGE FOR THE TRANSITION WILL BE THE SELECTIVE RETENTION AND PROMOTION OF KEY PERSONNEL WHO ARE EXPERIENCED YET YOUNG ENOUGH TO SERVE WELL BEYOND THE TRANSITION. THE COMMISSION IS NOW STUDYING WHAT TOOLS COULD BE USED TO OPEN UP APPROPRIATE POSITIONS FOR THESE CRITICAL EMPLOYEES.

### **THE CANAL INFRASTRUCTURE**

THE PHYSICAL INFRASTRUCTURE OF THE CANAL IS THE SECOND VITAL PILLAR OF THE CANAL. THE COMMISSION HONORS THIS EIGHTY-ONE YEAR OLD ENGINEERING MARVEL WITH THE BEST MAINTENANCE AND CARE THAT CAN BE PROVIDED.

BECAUSE OF THE CANAL'S STRONG PERFORMANCE IN 1995, THE COMMISSION MADE EIGHT MILLION DOLLARS IN PROFIT, WHICH BY TREATY MUST BE PAID TO THE GOVERNMENT OF PANAMA. AT THE REQUEST OF PRESIDENT BALLADARES, HOWEVER, THE COMMISSION'S BINATIONAL BOARD UNANIMOUSLY VOTED TO REINVEST \$8 MILLION IN THE COMMISSION'S CAPITAL PROGRAM. THIS DEMONSTRATES PANAMA'S LONG-TERM COMMITMENT TO THE CANAL'S FUTURE. THE CANAL WILL REMAIN ATTRACTIVE AND ECONOMICAL TO WORLD SHIPPING WELL INTO THE NEXT CENTURY.

THE BOARD HAS COMMISSIONED A COMPREHENSIVE EXAMINATION OF THE CANAL'S INFRASTRUCTURE AND OPTIONS FOR THE MOST EFFECTIVE CAPITAL INVESTMENTS, AND UNANIMOUSLY APPROVED A CONTRACT AWARD TO THE ARMY CORPS OF ENGINEERS TO ASSESS THE PANAMA CANAL'S MAINTENANCE AND CAPITAL INVESTMENT PROGRAMS FOR MAJOR INFRASTRUCTURE FEATURES, EQUIPMENT AND OPERATIONS. A PRELIMINARY DRAFT REPORT IS DUE BY JUNE 15, 1996.

THE BOARD IS ALSO EXAMINING HOW TO BEST SOLIDIFY AND EXPAND THE CANAL'S BUSINESS BASE BY UNDERTAKING A "GROWTH STRATEGY" STUDY. THIS STUDY WILL EXPLORE POTENTIAL OPPORTUNITIES TO USE THE CANAL'S ASSETS TO ADD AREAS OF REVENUE-PRODUCING ACTIVITY BOTH IN CORE AND NON-CORE BUSINESS ACTIVITIES.

### THE CANAL'S CUSTOMERS

THE LAST PILLAR IS THE CANAL'S REASON FOR EXISTENCE - OUR CUSTOMERS. THE COMMISSION ALWAYS FACES INCREASED COMPETITION FOR ITS CUSTOMERS AS INTERMODAL TRANSPORTATION BECOMES MORE COST-COMPETITIVE. EFFICIENT OPERATION AND CUSTOMER SATISFACTION ARE MORE IMPORTANT THAN EVER.

COMMUNICATION WITH CUSTOMERS IS VITAL. AS WITH ANY BUSINESS FACING COMPETITION, THE COMMISSION MUST LISTEN KEENLY AND ACT RESPONSIVELY TO THE NEEDS AND CONCERNS OF ITS CUSTOMERS. IT IS ESPECIALLY IMPORTANT TO COMMUNICATE THE ONGOING PROGRESS OF THE TRANSITION. ONE OF OUR STRONGEST ARGUMENTS IN SUPPORTING THAT PROPOSITION IS THE CHARACTER OF OUR WORKFORCE -- COMPOSED OF MORE THAN 90% PANAMANIAN EMPLOYEES.

ANOTHER EFFORT THAT WE ARE MOST PROUD OF IS OUR WORK WITH PANAMA'S MINISTER OF EDUCATION. WE ARE PROVIDING MATERIALS ON THE CANAL TO SCHOOLS THROUGHOUT PANAMA SO PANAMANIAN CHILDREN GAIN A DEEPER KNOWLEDGE AND APPRECIATION OF THE WATERWAY THAT IS SO CENTRAL TO THEIR COUNTRY'S IDENTITY AND ECONOMY. THE MANAGERS, ENGINEERS, AND PILOTS WHO WILL KEEP THE CANAL WORLD-CLASS IN THE 21ST CENTURY ARE IN ELEMENTARY SCHOOL AND HIGH SCHOOL TODAY. THEY ARE THE CANAL'S FUTURE.

IN KEEPING WITH THESE IMPORTANT OUTREACH EFFORTS, THE BOARD AND PANAMA'S TRANSITION COMMISSION JOINTLY HOSTED A SEMINAR LAST WEEK ON THE PROGRESS OF THE AGENCY'S TRANSITION WITH CANAL CUSTOMERS, PANAMANIAN BUSINESSMEN, NEWS MEDIA, GOVERNMENT OFFICIALS AND CIVIC LEADERS. THIS WAS OUR FIRST JOINT BRIEFING IN PANAMA, AND IT REPRESENTS

OUR BROAD EFFORT TO ENHANCE PUBLIC AWARENESS AND CREATE A NATIONAL CONSENSUS IN SUPPORT OF THE TRANSITION.

SERVING AS ANOTHER EXAMPLE OF THE PCC OUTREACH PROGRAM, BOARD MEMBER JORGE RITTER ACCOMPANIED PRESIDENT BALLADARES TO THE FAR EAST TO MEET WITH CANAL CUSTOMERS. PANAMA'S AMBASSADOR TO THE UNITED STATES, RICARDO ARIAS AND I ALSO TRAVELED RECENTLY TO SOUTH AMERICA TO MEET WITH SHIPPERS AND GOVERNMENT OFFICIALS OF BRAZIL, ECUADOR AND PERU. ECUADOR AND PERU RELY HEAVILY ON THE CANAL, WITH 67 PERCENT OF ECUADOR'S INTERNATIONAL MARITIME TRAFFIC AND 43 PERCENT OF PERU'S TRANSITING THE CANAL DURING 1995. WE COMMUNICATED OUR COMMITMENT TO THE TRANSITION AND OUR CONFIDENCE IN ITS ULTIMATE SUCCESS, AS WE LEARNED FIRST-HAND THE CONCERNS OF OUR INTERNATIONAL CUSTOMERS.

THE COMMISSION IS STUDYING HOW FURTHER FLEXIBILITY COULD BE ACCORDED TO IT AS A GOVERNMENT CORPORATION TO ALLOW IT TO BECOME MORE AGGRESSIVE IN THESE EFFORTS IN THE FINAL CRITICAL YEARS OF THE TRANSITION.

**RECOGNITION OF CANAL EMPLOYEES**

WE BELIEVE THE CANAL ENTERPRISE STANDS AS A MODEL OF EFFICIENCY FOR THE WORLD SHIPPING COMMUNITY. IT IS NO MYSTERY THAT THIS IS THE RESULT OF THE LOYALTY AND DEDICATION OF A HIGHLY QUALIFIED AND PROFESSIONAL WORK FORCE. WE ARE WORKING AS A BINATIONAL BOARD AND COMMISSION TO DO EVERYTHING POSSIBLE TO ENSURE THE HIGHEST LEVEL OF TRAINING AND PROFESSIONALISM IN THE WORKFORCE AS WE PREPARE THIS OPERATION FOR THE 21ST CENTURY.

IN CLOSING, I WOULD LIKE TO EXPRESS AGAIN, ON BEHALF OF THE BOARD AND THE ENTIRE WORK FORCE, MY APPRECIATION FOR MR. GUARDIA'S ENORMOUS CONTRIBUTIONS TO THE MANAGEMENT OF THE CANAL. THE PANAMA CANAL, AND ALL OF US, OWE HIM A GREAT DEBT FOR THE SUCCESSFUL CONDUCT OF THE ONGOING TRANSITION, FOR THE ACCOMPLISHMENT OF MAJOR MODERNIZATION PROJECTS DURING HIS TENURE, AND FOR HIS WISDOM, INTEGRITY AND LEADERSHIP. I THANK HIM TODAY IN YOUR PRESENCE FOR DEMONSTRATING ONCE AGAIN, HIS SELFLESS LEADERSHIP BY TIMING HIS DEPARTURE FROM THE PANAMA CANAL ORGANIZATION TO ENSURE NO LOSS OF MOMENTUM OR CONTINUITY IN THE ORGANIZATION'S TRANSITION PROCESS.

## CONCLUSION

MR. CHAIRMAN, THIS CONCLUDES MY REMARKS. I WOULD LIKE TO RECOMMEND THAT MR. GUARDIA PRESENT HIS STATEMENT, AND THEN WE ALL WILL BE AVAILABLE TO ANSWER ANY QUESTIONS. THANK YOU.

Mr. BATEMAN. We look forward to hearing Mr. Guardia and again welcome him back before the committee, and like you would add our appreciation for the services he has rendered and that we are grateful that he is continuing to serve until we have success in finding the proper successor. Mr. Guardia, we are glad to have you and look forward to your testimony.

### **STATEMENT OF GILBERTO GUARDIA, ADMINISTRATOR OF THE PANAMA CANAL COMMISSION**

Mr. GUARDIA. Thank you very much, Mr. Chairman. Thank you both for your kind expressions. Mr. Chairman, members of the Panel, I am Gilberto Guardia, Administrator of the Panama Canal Commission. I am pleased to appear today to discuss its programs and activities and I present now a summarized version of my statement. You will have a complete statement for the record.

My appearance today will be my last as Administrator of the Panama Canal Commission. After much consideration, I have presented my resignation to the President of the United States for the purpose of allowing him to appoint, subject to confirmation by the U.S. Senate, an individual who will carry through to conclusion the successful transfer of the Panama Canal Administration to the Republic of Panama on December 31 of 1999, and be in place to continue to guide its direction into the 21st century.

As you are aware, I cannot address the Commission's fiscal year 1997 program because the President's budget has not yet been submitted to Congress. However, I would like to take this opportunity to address the Commission's performance for fiscal year 1995 and the current traffic outlooks for fiscal year 1996 and 1997, our capital programs and current transition activity.

Most major elements of Canal traffic and tolls revenue established all-time records in fiscal year 1995. Oceangoing commercial cargo rose 11.6 percent and Panama Canal [PC] net tonnage increased 10.7 percent, with both traffic categories recording their highest level ever of the waterway.

Oceangoing transits in 1995 rose to 13,631 or 37 per day, an increase of 9 percent from the transit levels in 1994.

The trade-led economic expansion in the United States, Europe and Latin America, coupled with exceptionally high shipments of U.S. grain to the Far East were responsible for the significant improvements in traffic, in particular the greater movements of bulk-type and specialized commodities.

Those revenues in 1995 reached a record \$463 million, up 10.4 percent from 1994. Total operating revenues for the year were \$586 million.

Operating expenses in fiscal year 1995 were \$586 million, an increase of \$40 million or 7.3 percent over fiscal year 1994. A result primarily of higher tonnage payments to the Government of Panama and increased payroll costs of wage increases effective January 1995, and additional manpower resources required to handle the higher volume of traffic.

Canal traffic and tolls revenue are expected to remain strong in fiscal year 1996, increasing marginally when compared to the record levels of 1995. Tolls revenue for fiscal year 1996 is estimated



at \$464 million, a marginal increase of 0.3 of 1 percent over the spectacular levels achieved in fiscal year 1995.

For fiscal year 1997, canal traffic and revenues should continue to improve as a transition to a moderate growth economy is successfully completed and sustained in the United States and as growth in Latin American regions results in expanded intra and inter-regional trade.

Once again grains are projected to remain the single most important canal trade in the wake of strong world demand. Oceangoing transits are now forecast to rise slightly above 1996 levels and tolls revenue is expected to increase about 1 percent to \$467 million.

My discussion of record canal traffic in fiscal year 1995 and the outlook for the continuation of these volumes provides the framework for the review of our capital program over the next several years.

The quality of service provided by the canal is directly related to the waterway's capacity for meeting transit demand. Transit time and reliability are critical to the shipping industry and the record-breaking traffic levels in 1995 tested the Commission's ability to meet its long-standing commitment to a 24-hour standard or canal water standard.

To ensure that the Panama Canal is equipped to meet future traffic demands and quality transit service is maintained, we have expanded the capital program budget for the next 5 years. The enhanced program will increase canal capacity by augmenting and speeding up the implementation of a number of modernization and improvement programs.

The new 5-year package would raise the total capital investment for fiscal years 1996 through 2000 from \$247 million to \$377 million. The additional investment is directed to five major efforts—accelerating the Gaillard Cut widening program, augmenting the tug boat fleet, the signing and procuring new locomotives, enhancing and modernizing the vessel traffic management system, and modernizing locks-machinery control systems.

As we near the end of U.S. administration and operation of the canal, we must ensure that the transition to Panamanian operation and control is smooth and seamless. Planning for the transfer of the canal to the Republic of Panama has been done in the same manner with the same enthusiasm and care as other major undertakings have been accomplished over the years.

Increased Panamanian participation throughout the Commission has followed an orderly and systematic process. Already the Commission's work force is over 90 percent. Panamanian and Panamanian participation is increasing significantly in management positions under the professional and skilled craft areas so important to efficient operation of the canal.

During the last 17 years, more than \$2.3 billion have been spent on major maintenance efforts and capital expenditures to improve the waterway overall. Services currently provided by United States agencies and other organizations which may not be readily transferable to the Panama agency post-1999 have been surveyed and recommendations are being provided for alternate sources.

A transition milestone plan with over 200 tasks to be executed, certain of which need to be coordinated with the Government of Panama before 1999 has been approved by the Board of Directors.

Major task groups in this planning include the review and analysis of Commission regulations, management and operating practices, and organizational structure. We also are translating into Spanish all United States laws and regulations, bearing upon the canal's operation and administration. The effort has proved to be very useful in drafting by Panama of the new organic law which will establish and govern the canal organization post-1999 and will also be very valuable when drafting the Canal regulations that will be approved by the new canal authority.

The milestone plan also includes the development and implementation of a successful program that will ensure the continuity of qualified personnel in key positions.

Of course, one of the broadest transition efforts is the process of making intelligent adjustments to Public Law 96-70 that will facilitate the transition process. I join the chairman in expressing our thanks for your leadership in guiding the Commission's Government Corporation law to a successful conclusion.

In summary, although all of the transition efforts are well on track, there is still a lot of work ahead. The transfer will bring enormous opportunities for Panama's economic development. However, it will also impose a great responsibility—that of maintaining the highest standards of quality and professionalism. A large number of Panamanians have already been exposed to the planning and systematic approach which is part of a culture of the Panama Canal. They know it and they know it can be done.

In closing, Mr. Chairman, that concludes my prepared remarks. I would like to take this opportunity to express my appreciation to the panel members for the support they have provided to the Panama Canal Commission and to me over the last 5 years. The continuation of this harmonious and productive relationship will be even more essential as we move into these last transition years.

I would be pleased to answer any questions that you may have which either the chairman or myself will be addressing. Thank you very much.

[The prepared statement of Mr. Guardia follows:]

**FISCAL YEAR 1997**



**STATEMENT OF THE  
ADMINISTRATOR  
PANAMA CANAL COMMISSION**

*BEFORE THE*

**NATIONAL SECURITY COMMITTEE**

**SPECIAL OVERSIGHT PANEL  
ON THE MERCHANT MARINE**

**U.S. HOUSE OF REPRESENTATIVES**

**10:00 A.M., MARCH 5, 1996**

**ROOM 2337 RAYBURN HOUSE OFFICE BUILDING**

INTRODUCTION

MR. CHAIRMAN, MEMBERS OF THE PANEL, I AM GILBERTO GUARDIA, ADMINISTRATOR OF THE PANAMA CANAL COMMISSION. I AM PLEASED TO APPEAR BEFORE YOU TODAY TO DISCUSS THE PROGRAMS AND ACTIVITIES OF THE PANAMA CANAL COMMISSION, AND TO BRING YOU UP TO DATE ON THE MANAGEMENT AND OPERATION OF THE PANAMA CANAL.

MY APPEARANCE TODAY WILL BE MY LAST AS ADMINISTRATOR OF THE PANAMA CANAL COMMISSION. AS YOU MAY KNOW, AFTER MUCH CONSIDERATION I HAVE OFFERED MY RESIGNATION TO THE PRESIDENT OF THE UNITED STATES FOR THE PURPOSE OF ALLOWING HIM TO APPOINT, SUBJECT TO CONFIRMATION BY THE U.S. SENATE, AN INDIVIDUAL WHO WILL CARRY THROUGH TO CONCLUSION THE SUCCESSFUL TRANSFER OF THE PANAMA CANAL ADMINISTRATION TO THE REPUBLIC OF PANAMA ON DECEMBER 31, 1999, AND BE IN PLACE TO CONTINUE TO GUIDE ITS DIRECTION INTO THE TWENTY FIRST CENTURY.

AS YOU ARE AWARE, I CANNOT ADDRESS THE COMMISSION'S FISCAL YEAR 1997 PROGRAMS BECAUSE THE PRESIDENT'S BUDGET HAS NOT YET BEEN SUBMITTED TO CONGRESS. HOWEVER, I WOULD LIKE TO TAKE THIS OPPORTUNITY TO ADDRESS THE COMMISSION'S PERFORMANCE FOR FISCAL YEAR 1995 AND THE CURRENT TRAFFIC OUTLOOKS FOR FY 1996 AND FY 1997.

OPERATING RESULTS FOR FISCAL YEAR 1995

MOST MAJOR ELEMENTS OF CANAL TRAFFIC AND TOLLS REVENUE ESTABLISHED ALL-TIME RECORD LEVELS IN FISCAL YEAR 1995. OCEANGOING COMMERCIAL CARGO ROSE 11.6 PERCENT TO 190 MILLION LONG TONS, AND PC NET TONNAGE INCREASED 10.7 PERCENT TO 217 MILLION TONS, WITH BOTH TRAFFIC CATEGORIES RECORDING THEIR HIGHEST LEVEL EVER AT THE WATERWAY.

OCEANGOING TRANSITS ROSE TO 13,631 OR 37.3 DAILY DURING THE YEAR, AN INCREASE OF 9 PERCENT FROM 12,478 OR 34.2 DAILY RECORDED IN FISCAL YEAR 1994. TRANSITS BY PANAMAX VESSELS, THOSE WITH BEAMS EQUAL TO OR GREATER THAN 30.5 METERS (100 FEET) ESTABLISHED YET ANOTHER RECORD BY CLIMBING TO 3,695 OR 27 PERCENT OF TOTAL OCEANGOING TRANSITS, WHICH REPRESENTS A 14 PERCENT INCREASE OVER THE PRIOR YEAR.

THE TRADE-LED ECONOMIC EXPANSION IN THE UNITED STATES, EUROPE AND LATIN AMERICA, COUPLED WITH EXCEPTIONALLY HIGH SHIPMENTS OF U.S. GRAIN TO THE FAR EAST WERE RESPONSIBLE FOR THE SIGNIFICANT IMPROVEMENTS IN TRAFFIC, IN PARTICULAR THE GREATER MOVEMENTS OF BULK-TYPE AND SPECIALIZED COMMODITIES.

FOR THE NINTH CONSECUTIVE YEAR, THE VOLATILE GRAIN TRADE REMAINED THE LEADING CANAL COMMODITY GROUP IN TERMS OF TONNAGE, HAVING RISEN 29 PERCENT TO AN ALL-TIME RECORD OF 44 MILLION LONG TONS THIS FISCAL YEAR. WITHIN THIS TOTAL, CORN WAS THE KEY CARGO, DUE TO INCREASED U.S. CORN SHIPMENTS TO JAPAN, CHINA, SOUTH KOREA, AND THE WEST COAST OF SOUTH AMERICA. OTHER MAJOR COMMODITY GROUPS REFLECTED GAINS WHEN COMPARED WITH FISCAL YEAR 1994, EXCEPT FOR WHEAT AND PETROLEUM PRODUCTS, WHICH SHOWED DECREASES.

AS A RESULT OF THIS STRONG TRAFFIC PERFORMANCE, TOLLS REVENUE REACHED A RECORD \$463 MILLION, UP 10.4 PERCENT FROM THE AMOUNT COLLECTED IN FISCAL YEAR 1994. TOTAL OPERATING REVENUES FOR THE YEAR WERE \$586 MILLION.

OPERATING EXPENSES IN FISCAL YEAR 1995 ALSO WERE \$586 MILLION, AN INCREASE OF \$40 MILLION OR 7.3 PERCENT OVER FISCAL YEAR 1994. TONNAGE PAYMENTS TO THE GOVERNMENT OF PANAMA ROSE \$10 MILLION TO \$80 MILLION IN 1995 AS A RESULT OF THE INCREASED TRAFFIC VOLUME AND A BIENNIAL CHANGE IN THE TONNAGE RATE FROM \$.36 TO \$.37 PER PC/UMS NET TON. TOTAL PAYMENTS TO PANAMA WERE \$100 MILLION. PAYROLL COSTS AT \$326 MILLION WERE UP 9.4 PERCENT, REFLECTING WAGE INCREASES ( 2.86 PERCENT FOR WAGE BOARD EMPLOYEES AND A 2.0 PERCENT INCREASE FOR GENERAL SCHEDULE

EMPLOYEES) EFFECTIVE JANUARY 1995, AND ADDITIONAL MANPOWER RESOURCES THAT WERE REQUIRED FOR THE HIGHER VOLUME OF TRAFFIC. FULL-TIME EQUIVALENTS (FTEs) ROSE FROM 8,535 IN FY 1994 TO 8,819 IN FY 1995.

THE CAPITAL CONTRIBUTION WAS INCREASED TO \$22 MILLION AS COMPARED TO \$11.5 MILLION IN FISCAL YEAR 1994, TO PROVIDE ADEQUATE FUNDING OF THE COMMISSION'S CAPITAL PROGRAM.

AT THE BOTTOM LINE, THE COMMISSION HAD NET OPERATING REVENUES OF \$8 MILLION, WHICH UNDER THE PROVISIONS OF THE 1977 PANAMA CANAL TREATY, WOULD HAVE BEEN PAYABLE TO THE GOVERNMENT OF PANAMA. HOWEVER, THE BINATIONAL BOARD OF DIRECTORS (WITH THE ENDORSEMENT OF PRESIDENT PEREZ-BALLADARES) UNANIMOUSLY AGREED TO FOREGO THE PROFIT PAYMENT TO PANAMA AND TO INCREASE THE CONTRIBUTION TO THE COMMISSION'S CAPITAL EXPENDITURE PROGRAM.

#### **OUTLOOK FOR FISCAL YEAR 1996**

CANAL TRAFFIC AND TOLLS REVENUE ARE EXPECTED TO REMAIN STRONG IN FY 1996, INCREASING marginally WHEN COMPARED TO THE RECORD LEVELS FOR 1995. GIVEN CURRENT TRADE PATTERNS AT THE WATERWAY, ROBUST PERFORMANCE IS ANTICIPATED IN THE FIRST HALF OF THE YEAR, WITH GROWTH

RATES FALLING TO LOWER NUMBERS TOWARD THE END OF THE FISCAL PERIOD. A SMALL ADDITIONAL UPTURN FOR THE FULL YEAR IS EXPECTED AS THE WORLD ECONOMY CONTINUES TO IMPROVE, LED BY TRADE-DRIVEN ECONOMIC ACTIVITY.

DESPITE A PROJECTED SLOWING IN THE U.S. ECONOMY, TRADE TO AND FROM THIS COUNTRY WILL REMAIN STRONG IN VIEW OF THE DEPRECIATED DOLLAR AND FURTHER U.S. PRODUCTIVITY GAINS. EUROPEAN ECONOMIC ACTIVITY IS EXPECTED TO CONTINUE ON A RECOVERY PATH AND JAPANESE TRADE SHOULD BE STEADY DESPITE IMPORTANT SHORT AND LONG TERM PROBLEMS IN THE JAPANESE ECONOMY. INDUSTRIALIZING NATIONS IN LATIN AMERICA AND THE FAR EAST WILL CONTINUE TO DO WELL DURING THIS PERIOD AND WILL BENEFIT GREATLY FROM RAPID RATES OF INVESTMENT IN PHYSICAL AND HUMAN CAPITAL, MARKET REFORMS, EXPORT-LED GROWTH AND RISING DOMESTIC DEMAND. GROWTH IN ALL EMERGING MARKETS SHOULD CONTINUE TO OUT PACE GROWTH IN THE INDUSTRIAL COUNTRIES.

CANAL TRAFFIC PATTERNS FOR THE FIRST QUARTER THIS FISCAL YEAR SUPPORT THE EXPECTATION OF FURTHER GROWTH. AS AN EXAMPLE, OCEANGOING TRANSITS REGISTERED THEIR STRONGEST OCTOBER TO DECEMBER SHOWING SINCE FISCAL YEAR 1981, TOTALING 3,354 OR 36.5 PER DAY. TOLLS REVENUE STOOD AT \$121 MILLION, COMPARED WITH \$111 MILLION FOR THE FIRST THREE MONTHS OF FISCAL YEAR 1995. COMMERCIAL CARGO TONNAGE DATA AVAILABLE FOR THE



FIRST THREE MONTHS OF FISCAL YEAR 1996 SHOWS A SOLID INCREASE OF 8.4 PERCENT TO 49 MILLION LONG TONS RELATIVE TO THE SAME PERIOD OF LAST YEAR.

THIS STRONG ACTIVITY MIRRORS CONTINUED GAINS IN U.S. GRAIN EXPORTS AND IN SHIPMENTS OF OTHER COMMODITIES THAT ARE PARTICULARLY SENSITIVE TO THE LEVEL OF ECONOMIC ACTIVITY SUCH AS CRUDE OIL, MANUFACTURES OF IRON AND STEEL AND COAL AND COKE. CONTAINERIZED CARGO, REFRIGERATED PRODUCTS, PHOSPHATES, AND PETROLEUM PRODUCTS SHIPMENTS ALSO PERFORMED WELL ABOVE LAST FISCAL YEAR LEVELS DURING THE OCTOBER/DECEMBER PERIOD.

CONSONANT WITH THESE DEVELOPMENTS, REVISED ESTIMATES SHOW GROWTH IN KEY CANAL TRAFFIC PARAMETERS ABOVE THE LEVELS PROVIDED TO THE CONGRESS IN THE COMMISSION'S FISCAL YEAR 1996 BUDGET. OCEANGOING TRANSITS FOR FISCAL YEAR 1996 ARE NOW FORECAST TO INCREASE SUBSTANTIALLY, TO 13,704 OR 37.4 DAILY AS COMPARED TO 12,850 OR 35.1 DAILY IN THE BUDGET.

TOLLS REVENUE FOR FISCAL YEAR 1996 IS ESTIMATED AT \$464 MILLION A MARGINAL INCREASE OF 0.3 PERCENT OVER THE SPECTACULAR LEVELS ACHIEVED IN FISCAL YEAR 1995. THE REVISED TOLLS FORECAST REFLECTS A \$29 MILLION

INCREASE OVER THE FISCAL YEAR 1996 BUDGET ESTIMATE PROVIDED TO CONGRESS LAST YEAR.

OUTLOOK FOR FISCAL YEAR 1997

TURNING TO FISCAL YEAR 1997, I WOULD LIKE TO SHARE WITH YOU, THE CURRENT OUTLOOK FOR CANAL TRAFFIC FOR FISCAL YEAR 1997. CANAL TRAFFIC AND TOLLS REVENUE SHOULD CONTINUE TO IMPROVE AS THE TRANSITION TO A MODERATE GROWTH ECONOMY IS SUCCESSFULLY COMPLETED AND SUSTAINED IN THE UNITED STATES, AND AS GROWTH IN THE LATIN AMERICAN REGION RESULTS IN EXPANDED INTRA AND INTER-REGIONAL TRADE.

ONCE AGAIN GRAINS ARE PROJECTED TO REMAIN THE SINGLE MOST IMPORTANT CANAL TRADE IN THE WAKE OF STRONG WORLD DEMAND, WITH THE WHEAT AND SOYBEAN TRADES RECOVERING DURING THE PERIOD. TRADING IN OTHER BULK-TYPE COMMODITIES SUCH AS PHOSPHATES, PULPWOOD, FERTILIZERS, AND CRUDE OIL; CONTAINER TRADING TO AND FROM THE WEST COAST OF SOUTH AMERICA; AND REEFER MOVEMENTS TO, EUROPE AND THE U.S. EAST COAST SHOULD CONTINUE TO DRIVE CANAL TRAFFIC DURING FISCAL YEAR 1997. ADDITIONAL GROWTH WILL COME FROM THE BANANA TRADE DUE TO A GREATER EUROPEAN UNION QUOTA AND STRONGER CONSUMER DEMAND

BASED ON THE NEW LEVELS OF CARGO PROJECTED FOR FISCAL YEAR 1997, OCEANGOING TRANSITS ARE NOW FORECAST TO RISE SLIGHTLY BY 0.4 PERCENT TO 13,757 OR 37.7 DAILY, AND TOLLS REVENUE IS EXPECTED TO INCREASE 0.6 PERCENT TO \$467. MILLION.

### 1996 CAPITAL PROGRAM

MY DISCUSSION OF CANAL TRAFFIC VOLUMES IN FISCAL YEAR 1995 AND THE OUTLOOKS FOR FUTURE PROVIDES A FRAMEWORK FOR THE REVIEW OF OUR CAPITAL PROGRAM OVER THE NEXT SEVERAL YEARS.

THE QUALITY OF SERVICE PROVIDED BY THE CANAL TO THE INTERNATIONAL MARITIME COMMUNITY IS DIRECTLY RELATED TO THE WATERWAY'S CAPACITY FOR MEETING TRANSIT DEMAND. BECAUSE TIME AND RELIABILITY ARE CRITICAL IN THE SHIPPING INDUSTRY, ONE OF THE IMPORTANT INDICATORS FOR JUDGING QUALITY IS CANAL WATERS TIME, WHICH MEASURES THE PERIOD A VESSEL SPENDS AT THE WATERWAY ONCE IT IS READY FOR TRANSIT. IN ADDITION, THE RECORD-BREAKING TRAFFIC LEVELS IN FISCAL YEAR 1995 TESTED THE COMMISSION'S ABILITY TO MEET ITS LONG-STANDING COMMITMENT TO A 24 HOUR STANDARD.

TO ENSURE THAT THE PANAMA CANAL IS EQUIPPED TO MEET FUTURE TRAFFIC DEMANDS AND THAT QUALITY TRANSIT SERVICE IS MAINTAINED OVER THE LONG TERM, THE COMMISSION'S BOARD OF DIRECTORS APPROVED OUR PLAN TO EXPAND THE CAPITAL PROGRAM BUDGET FOR THE NEXT FIVE YEARS. THE ENHANCED CAPITAL PROGRAM BUDGET WILL ALLOW THE COMMISSION TO INCREASE CANAL CAPACITY MORE RAPIDLY BY AUGMENTING AND SPEEDING UP THE IMPLEMENTATION OF A NUMBER OF MODERNIZATION AND IMPROVEMENT PROGRAMS.

THE CANAL'S MAXIMUM SUSTAINABLE CAPACITY IS 42 TRANSITS PER DAY, BUT THE CURRENT OPERATING CAPACITY IS ABOUT 39, THE MAXIMUM AVERAGE DAILY TRANSIT LEVEL AT WHICH WE CAN SUSTAIN A CANAL WATERS TIME OF 24 HOURS. AVERAGE CANAL WATERS TIME WOULD INCREASE WELL ABOVE THE BENCHMARK IF THE AVERAGE DAILY TRANSIT LEVEL EXCEEDS THE CURRENT OPERATING CAPACITY.

THE DAILY TRANSIT AVERAGE FOR FISCAL YEAR 1995 EXCEEDED 37, AND FORECASTS INDICATE THAT THE AVERAGE COULD APPROACH THE CURRENT OPERATING CAPACITY OF 39 .BY FISCAL YEAR 1999. THE ACCELERATED MODERNIZATION AND IMPROVEMENT PROGRAM APPROVED BY THE BOARD WILL PROVIDE THE CANAL WITH THE STRUCTURAL CHANGES AND EQUIPMENT NEEDED TO INCREASE OPERATING CAPACITY TO ABOUT 44 AND MAXIMUM SUSTAINABLE

CAPACITY TO 50 TRANSITS PER DAY, REFLECTING THE COMMISSION'S COMMITMENT TO GUARANTEE THE ABILITY OF THE WATERWAY TO MEET THE TRANSIT DEMANDS OF THE NEXT CENTURY.

THE NEW FIVE-YEAR PACKAGE WOULD RAISE THE TOTAL CAPITAL INVESTMENT FOR FISCAL YEARS 1996 THROUGH 2000. THE ADDITIONAL INVESTMENT TO THE COMMISSION'S ONGOING CAPITAL PROGRAM WOULD PROVIDE FUNDS FOR FIVE MAJOR EFFORTS --- ACCELERATING THE GAILLARD CUT WIDENING PROGRAM, AUGMENTING THE TUGBOAT FLEET, DESIGNING AND PROCURING NEW LOCKS LOCOMOTIVES, ENHANCING AND MODERNIZING THE VESSEL TRAFFIC-MANAGEMENT SYSTEM AND MODERNIZING LOCKS-MACHINERY CONTROL SYSTEMS.

A FEW COMMENTS ON A SPECIFIC CAPITAL PROGRAM, WHICH THIS COMMITTEE IS FAMILIAR WITH, WILL DEMONSTRATE THE OBJECTIVES OF THE EXPANDED CAPITAL PROGRAM --- ACCELERATING THE GAILLARD CUT WIDENING PROGRAM.

FOR SAFETY REASONS, RESTRICTIONS ARE IMPOSED ON CERTAIN CATEGORIES OF VESSEL TRAFFIC IN THE 13-KILOMETER-LONG GAILLARD CUT, RESULTING IN AN ENTIRELY NORTHBOUND TRAFFIC FLOW DURING THE EARLY DAYLIGHT HOURS, AN ENTIRELY SOUTHBOUND FLOW BY THE AFTERNOON AND A MIXED FLOW DURING THE REMAINING HOURS. THE FLOW CHANGES THAT OCCUR SEVERAL TIMES DAILY

ARE REQUIRED TO MAINTAIN CANAL WATERS TIME UNDER 24 HOURS, BUT THIS RESULTS IN A LOCKS UTILIZATION OF ONLY ABOUT 80 PERCENT.

IN JULY 1991, THE COMMISSION BOARD OF DIRECTORS APPROVED A LONG-RANGE PROGRAM TO WIDEN THE CUT FROM ITS EXISTING 500 FEET TO A MINIMUM OF 630 FEET ALONG STRAIGHT STRETCHES AND TO 730 FEET AT CURVES.

AFTER THE WIDENING IS COMPLETED, MANY OF THE EXISTING RESTRICTIONS, INCLUDING THOSE LIMITING TRAFFIC FLOW TO A SINGLE DIRECTION, CAN BE ELIMINATED, INCREASING THE POTENTIAL FOR A LOCKS UTILIZATION OF MORE THAN 90 PERCENT. HIGHER UTILIZATION LEVELS WOULD BE IMPOSSIBLE TO ACHIEVE DUE TO MAINTENANCE, THE INEVITABILITY OF OCCASIONAL SYSTEM DELAYS CAUSED BY VESSEL BREAKDOWNS AND OTHER EVENTS THAT CANNOT BE ANTICIPATED.

PRIOR TO THE BOARD'S APPROVAL OF THE ENHANCED CAPITAL INVESTMENT PACKAGE, \$10 MILLION HAD BEEN BUDGETED FOR THE OVERALL WIDENING PROGRAM FOR EACH OF THE NEXT FIVE YEARS, WITH A TARGETED COMPLETION BY THE YEAR 2014.

THE NEW PLAN WILL INCREASE THE TOTAL FIVE-YEAR INVESTMENT BY MORE THAN 90 PERCENT AND CALLS FOR ALL MAJOR DRY-EXCAVATION CONTRACTS TO

BE AWARDED BY FISCAL YEAR 1999 AND COMPLETED BY 2001. THE WET EXCAVATION SHOULD BE COMPLETED BETWEEN FISCAL YEARS 2003 AND 2005.

THE APPROVAL OF THE ENHANCED IMPROVEMENT PACKAGE BY OUR BOARD OF DIRECTORS AND THE INCREASED CAPITAL PROGRAM BUDGET FOR FISCAL YEARS 1996 AND 1997, UNDERSCORE THE COMMISSION'S COMMITMENT TO THE LONGER-RANGE ACCELERATED INVESTMENT PLAN COVERING FISCAL YEARS 1998 THROUGH 2000 AND THE PERIOD BEYOND. THE EXPANDED PROGRAM WILL ENSURE A MODERN CANAL INTO THE TWENTY FIRST CENTURY, PROVIDING SUFFICIENT CAPACITY TO MEET EXPECTED TRAFFIC DEMANDS WITH THE CANAL'S TRADITIONAL HIGH QUALITY OF SERVICE.

#### TRANSITION ACTIVITIES

AS WE NEAR THE END OF U.S. ADMINISTRATION AND OPERATION OF THE CANAL, WE MUST ENSURE THAT ALL NECESSARY ACTIONS ARE TAKEN TO ENSURE THAT THE TRANSITION TO PANAMANIAN OPERATION AND CONTROL IS SMOOTH AND SEAMLESS, AND THAT THE CANAL CONTINUES TO OFFER THE SAME LEVEL OF HIGH QUALITY RELIABLE SERVICE AND ECONOMIC VALUE TO ITS CUSTOMERS. IN THAT REGARD I WOULD LIKE TO PRESENT AN OVERVIEW OF THE TRANSITION PROCESS.

SINCE ITS CONSTRUCTION, THE CANAL HAS ALWAYS BEEN SUBJECT TO CHANGES IN ITS EXTERNAL ENVIRONMENT; -- CHANGES IN WORLD TRADE PATTERNS, INCREASES IN TRAFFIC AND SHIP SIZE, CHANGES IN TECHNOLOGY, -- THEY ALL HAVE IMPACTED THE CANAL IN ONE WAY OR ANOTHER. TO WEATHER THESE CHANGES AND REMAIN VIABLE, CANAL MANAGEMENT HAS ALWAYS MONITORED THE EVOLUTION OF THESE TRANSFORMATIONS AS THEY DEVELOPED, AND PLANNED TIMELY ADJUSTMENTS TO THE CANAL'S OPERATION AND INFRASTRUCTURE, TO ENSURE THAT ITS USERS NEVER PERCEIVE A DECLINE IN EFFICIENCY, RELIABILITY, AND SAFETY, OR SUDDEN, UNEXPECTED INCREASES IN PRICE.

PLANNING AND IMPLEMENTATION FOR THE TRANSFER OF THE PANAMA CANAL TO THE REPUBLIC OF PANAMA IS BEING DONE IN THE SAME MANNER, WITH THE SAME ENTHUSIASM AND CARE AS OTHER MAJOR UNDERTAKINGS. THE COMMISSION'S TRANSITION EFFORTS BEGAN RIGHT AFTER THE TREATIES WERE SIGNED AND IMPLEMENTED.

ONE SIGNIFICANT TRANSITION ACTIVITY HAS BEEN THE INCREASE IN PANAMANIAN PARTICIPATION THROUGHOUT THE WORK FORCE. THE COMMISSION HAS FOLLOWED AN ORDERLY AND SYSTEMATIC PROCESS TO EXPAND PANAMANIAN PARTICIPATION THROUGHOUT THE ORGANIZATION WITH THE OBJECTIVE TO HAVE A QUALIFIED PANAMANIAN WORK FORCE IN PLACE TO



MANAGE AND OPERATE THE WATERWAY IN THE POST-TREATY ERA. ALREADY THE COMMISSION'S WORK FORCE IS OVER 90% PANAMANIAN, AND PANAMANIAN PARTICIPATION IS INCREASING SIGNIFICANTLY IN MANAGEMENT POSITIONS AND IN THE PROFESSIONAL AND SKILLED CRAFTS AREAS SO IMPORTANT TO THE EFFICIENT OPERATION OF THE CANAL.

DURING THE LAST 17 YEARS, THE PANAMA CANAL COMMISSION INCREASED ITS EMPHASIS ON MAJOR MAINTENANCE EFFORTS AND CAPITAL EXPENDITURES TO IMPROVE THE WATERWAY WHICH REFLECT ON THE PANAMA CANAL COMMISSION'S COMMITMENT TO ENSURE THE LONG-TERM OPERATION OF THE CANAL. OVERALL, MORE THAN 2.3 BILLION DOLLARS HAVE BEEN SPENT SINCE 1979 IN MAINTAINING, IMPROVING AND MODERNIZING THE WATERWAY. I HAVE ALREADY DESCRIBED THE ACCELERATION OF CERTAIN PROJECTS, TO MAKE SURE THAT THE CANAL IS READY TO MEET TRAFFIC REQUIREMENTS WELL INTO THE NEXT DECADE.

CONCERNED ABOUT THE AUTONOMY OF THE CANAL POST-1999, WE CONDUCTED A SURVEY TO IDENTIFY ESSENTIAL SERVICES CURRENTLY PROVIDED BY U.S. AGENCIES AND OTHER ORGANIZATIONS TO THE PANAMA CANAL COMMISSION, WHICH MAY NOT BE READILY TRANSFERABLE TO A CORRESPONDING PANAMA AGENCY POST-1999. THE SURVEY PROVIDED RECOMMENDATIONS ON SPECIFIC ARRANGEMENTS THAT NEED TO BE MADE TO ESTABLISH ALTERNATE SOURCES FOR SOME OF THOSE SERVICES DEEMED ESSENTIAL TO POST-1999 OPERATIONS.

ANOTHER IMPORTANT ELEMENT IN THE TRANSITION PROCESS IS THE CHANGE APPROVED LAST YEAR BY THE BOARD OF DIRECTORS TO THE CANAL'S MISSION STATEMENT WHICH NOW INCLUDES A SPECIFIC OBJECTIVE TO ENSURE THAT THE TRANSITION PROCESS IS PROVIDED ALL APPROPRIATE SUPPORT NECESSARY FOR ITS SUCCESSFUL EXECUTION. IN LINE WITH THIS ADDITION TO THE MISSION STATEMENT OF THE CANAL, WE PRESENTED AND THE BOARD OF DIRECTORS APPROVED A TRANSITION MILESTONE PLAN THAT INCLUDES OVER TWO HUNDRED TASKS TO BE EXECUTED, SOME OF WHICH NEED TO BE COORDINATED WITH THE GOVERNMENT OF PANAMA BEFORE 1999.

CONSIDERING THE IMPORTANCE OF THE MILESTONE PLAN, I HAVE ASSIGNED THE DEPUTY ADMINISTRATOR OVERALL RESPONSIBILITY FOR EXECUTING, MONITORING, AND REPORTING ON THE PROGRESS OF THIS PLAN. IN LINE WITH

THIS ASSIGNMENT, WE HAVE ESTABLISHED A DEDICATED DIVISION THAT HAS THE PRIMARY RESPONSIBILITY OF SUPPORTING AGENCY TRANSITION PLANNING.

MAJOR TASK GROUPS IN THE PLAN INCLUDE THE REVIEW AND ANALYSIS OF THE COMMISSION REGULATIONS, MANAGEMENT AND OPERATING PRACTICES, AND ORGANIZATIONAL STRUCTURE. TO FACILITATE COMMUNICATION AND COORDINATION BETWEEN THE PANAMA CANAL COMMISSION AND THE GOVERNMENT OF PANAMA'S TRANSITION COMMISSION, WE ARE TRANSLATING INTO SPANISH ALL U.S. LAWS AND REGULATIONS, ADMINISTRATIVE RULINGS AND DIRECTIVES, AND MAJOR JUDICIAL PRECEDENTS BEARING UPON THE CANAL'S OPERATION AND ADMINISTRATION. THIS EFFORT HAS PROVEN TO BE VERY USEFUL IN THE DRAFTING, BY PANAMA, OF THE NEW ORGANIC LAW WHICH WILL ESTABLISH AND GOVERN THE CANAL ORGANIZATION POST-1999 AND WILL ALSO BE VERY VALUABLE WHEN DRAFTING THE CANAL REGULATIONS THAT WILL BE APPROVED BY THE NEW CANAL AUTHORITY.

IN THE AREA OF HUMAN RESOURCE DEVELOPMENT, THE MILESTONE PLAN INCLUDES THE DEVELOPMENT AND IMPLEMENTATION OF A SUCCESSION PROGRAM THAT WILL ENSURE THE CONTINUITY OF QUALIFIED PERSONNEL IN KEY POSITIONS. SUCCESSION PLANNING CONSISTS IN IDENTIFYING KEY POSITIONS IN THE ORGANIZATION, DETERMINING BASIC QUALIFICATION STANDARDS REQUIRED BY THESE POSITIONS, IDENTIFYING THROUGHOUT THE ORGANIZATION POTENTIAL

CANDIDATES TO OCCUPY THOSE KEY POSITIONS, AND DEVELOPING TRAINING PROGRAMS TAILORED TO PREPARE THE POTENTIAL CANDIDATES FOR THE FUTURE.

IN THE AREA OF OPERATIONS, THE BOARD OF DIRECTORS PROPOSED THAT A THIRD PARTY CONDUCT A STUDY TO DOCUMENT THE CURRENT STATE OF THE CANAL'S INFRASTRUCTURE AND EVALUATE THE AGENCY'S MAINTENANCE AND CAPITAL INVESTMENT PROGRAMS. THE PROCESS INCLUDES ASSESSMENT OF INVESTMENT PRIORITIES, THE APPLICABILITY AND ECONOMICS OF ADDITIONAL STATE-OF-THE-ART TECHNOLOGY, AND MANAGEMENT SYSTEMS THAT COULD ENHANCE CANAL PERFORMANCE AND RELIABILITY OVER THE NEXT 20 YEARS. THE U.S. ARMY CORPS OF ENGINEERS BEGAN THE STUDY LAST SEPTEMBER AND THE FINAL REPORT WILL SOON BE PRESENTED TO THE BOARD FOR REVIEW. A CONTRACT WAS ALSO AWARDED TO A SELECT GROUP OF ENGINEERS TO TRACK THE CORPS OF ENGINEER'S STUDY.

AS PART OF THE TRANSITION EFFORTS, THE PANAMA CANAL COMMISSION HAS ALSO BEEN PROVIDING ADVICE TO REPRESENTATIVES OF THE INTEROCEANIC REGION AUTHORITY (ARI) REGARDING THE DEVELOPMENT OF THE MASTER PLAN FOR THE REVERTED AREAS. IN THIS RESPECT, PANAMA CANAL OFFICIALS HAVE PROVIDED BRIEFINGS AND INFORMATION REGARDING CANAL OPERATING

REQUIREMENTS TO ENSURE THAT POTENTIAL INVESTMENTS IN THE CANAL AREA ARE COMPATIBLE WITH THE CANAL'S CORE BUSINESS ACTIVITIES

OF COURSE, ONE OF THE BROADEST TRANSITION EFFORTS IS THE PROCESS OF MAKING INTELLIGENT ADJUSTMENTS TO PUBLIC LAW 96-70 THAT WILL FACILITATE THE TRANSITION PROCESS. I JOIN THE CHAIRMAN IN EXPRESSING OUR THANKS FOR YOUR LEADERSHIP IN GUIDING THE COMMISSION'S GOVERNMENT CORPORATION LAW TO A SUCCESSFUL CONCLUSION.

IN SUMMARY, THE TRANSITION EFFORTS ARE WELL ON TRACK, THERE IS STILL A LOT OF WORK AHEAD BUT, AS YOU CAN SEE, WE HAVE SPENT CONSIDERABLE TIME AND EFFORT IN DEVELOPING AND IMPLEMENTING THE ACTIONS NECESSARY TO ENSURE A SEAMLESS TRANSFER OF THE CANAL TO THE REPUBLIC OF PANAMA ON DECEMBER 31, 1999. THE TRANSFER WILL BRING ENORMOUS OPPORTUNITIES FOR PANAMA'S ECONOMIC DEVELOPMENT. HOWEVER, IT WILL ALSO IMPOSE A GREAT RESPONSIBILITY -- THAT OF MAINTAINING THE HIGHEST STANDARDS OF QUALITY AND PROFESSIONALISM. A LARGE NUMBER OF PANAMANIAN'S HAVE ALREADY BEEN EXPOSED TO THE PLANNING AND SYSTEMATIC APPROACH WHICH IS PART OF THE CULTURE OF THE PANAMA CANAL, THEY KNOW IT CAN BE DONE. THE PANAMA CANAL HAS LIVED THROUGH MANY CHANGES, WE RECOGNIZE THE MAGNITUDE OF THE TASK AT HAND AND REALIZE THERE ARE NOT MANY

PRECEDENTS ON WHICH TO BASE OUR ACTIONS. THIS ONLY MAKES THE PROCESS MORE CHALLENGING.

CLOSING

MR. CHAIRMAN, THAT CONCLUDES MY PREPARED REMARKS. I WOULD LIKE TO TAKE THIS OPPORTUNITY TO EXPRESS MY SINCERE APPRECIATION TO THE PANEL MEMBERS FOR THE SUPPORT AND ASSISTANCE THEY HAVE PROVIDED TO THE PANAMA CANAL COMMISSION AND TO ME OVER THE LAST 5 YEARS. MR. CHAIRMAN, I LOOK FORWARD TO A CONTINUATION OF THIS HARMONIOUS AND PRODUCTIVE RELATIONSHIP UNDER YOUR LEADERSHIP WHICH WILL BECOME EVEN MORE ESSENTIAL AS WE MOVE INTO THESE LAST TRANSITION YEARS. I WOULD BE PLEASED TO ANSWER ANY QUESTIONS THAT YOU OR THE MEMBERS OF THE PANEL MAY HAVE AT THIS TIME.

Mr. BATEMAN. Thank you, Mr. Guardia, we again appreciate your being here and appreciate hearing from you this morning. You both made reference to the fact that there are some legislative changes that you will be seeking in this session of Congress. It is difficult, of course, for us to sign on to something that is sight unseen, but we certainly look forward to working with you in a very cooperative way to see that the needs of the Commission are met and that the transition continues to be as smooth as possible.

Could you give me any idea of when you anticipate you will have Office of Management & Budget [OMB] clearance on your legislative package?

Mr. REEDER. Mr. Chairman, let me direct that to our Secretary, Mr. Mills, who probably is closer in time to a projection on that.

Mr. MILLS. Mr. Chairman, it appears that within 2 to 3 weeks at the outside we should have the initial product.

Mr. BATEMAN. We, of course, would be interested in receiving it as early as possible because we are necessarily going to be acting on a very compressed schedule in terms of the authorization bill, the Defense authorization bill and we would contemplate that your legislative package would be a part of the authorization bill, so we are on sort of a fast track this year.

Do either of you foresee any changes in the way waterborne commerce is going to be handled if it should have any adverse implications for the operation of the canal?

Mr. GUARDIA. No, we do not foresee any major changes or dramatic changes in the way of handling world commerce. There has been, I think, interesting indication in the canal of our percentage of Panamax ships being in an increased mode which in a way it is absorbing partially the increments in total tonnage that goes to the Panama Canal. Normally, the rate of growth of traffic is below the rate of growth of tonnage that goes through because of this phenomenon that is taking place. The traffic mix of the canal is moving toward, especially in some types of cargo, the larger ships, the Panamax ships, but in all I don't think that there is any dramatic change that can be envisioned.

Mr. REEDER. Mr. Chairman, I might just add a supplement of what the Administrator said by saying that we see intermodal competition with regard to containers as being very significant. That is only a small part of our business. It is 13 to 14 percent of our total business, but it is a very important part of our business. The other point I would add is that, as you know, the one constraint going through the canal or the locks, they are 110 feet in width and we can handle, accommodate 106 feet. We see on the horizon and do study construction, and we do not see a significant increase in vessels that exceed the ability that transit the canal and this would be a very important indicator of what you would envision and plan for out in the shipping world.

A day of water ton has been estimated as upwards of a quarter of a million dollars in cost for the largest of the vessels, so time is very important. And as you know, we cut off 9,000 miles going from New Orleans. We cut off 8,000 miles going from New York to the West Coast. Just to give some idea of what the canal does in the way of saving time.

Mr. BATEMAN. Let me get on the record a commendation for President Balladares to the Panamanian Government for their foresight in picking the revenue that were available to the country and committing them to capital improvements to maintain the infrastructure that is important for the future. It is, I think, something very, very commendable and a demonstration of an understanding and appreciation of the critical significance of maintaining the canal for the future of the Panamanian people.

With that, let me turn to Mr. Taylor and ask if he has any questions?

Mr. TAYLOR. Thank you, Mr. Chairman. Let me begin by, along with my colleagues, complimenting Mr. Guardia on the outstanding job you have done during this difficult transition period and the professionalism you brought to the job. I am sorry that you are choosing to retire but we are very grateful for what you have done.

A couple of things, you did not send your prepared testimony but earlier, Mr. Guardia, you talked of trying to get the maximum, sustainable transits up from 42 to 55. What is the time frame for that? I am sure that as organized as the Commission is that you have set that agenda. When do you anticipate you might be able to do that?

Mr. GUARDIA. That entails, of course, the accelerating of the Gaillard Cut program which we are bringing closer—its completion about 10 years from the original program. Also, the efforts toward which the increments in the capital program are directed is increasing that capacity, which means besides the Gaillard Cut widening, is putting the locks at the same capacity that the waterway itself will have. After the Gaillard Cut is expanded then the bottleneck of the canal will be at the lock. That entails additional locomotives; that entails additional tugs; and that entails aids to navigation of that nature that will bring the whole canal to be in tune at that maximum capacity. We are looking at that on the first half of the first decade after the year 2000; that is, between the year 2000 and 2005 reaching that point.

The way that the program is designed is so that all of those improvements will come into place by that time. So at that time the canal will have its maximum capacity. I need to explain that really this is not driven by volume of traffic; it is driven by the necessity for the canal to be able to absorb upsurges of traffic that we do get. In this growth that we have we talk about a moderate growth. However, that growth takes place with ups and downs with peaks and valleys, and when we have those peaks, the shipping industry can get affected negatively because of backlogs that present.

This program, what it does is it gives the canal the capacity to absorb those backlogs. And they are created because when we are doing maintenance really we are reducing the capacity of that canal. We are forced to operate, for instance, sometimes just one set of locks, while we close the other one for a major overhaul. But with this canal capacity increased, we will be able to absorb those backlogs very fast and maintain our traffic standards at the 24-hour level.

Mr. TAYLOR. Mr. Reeder, I have asked you this privately but publicly I would also like to open this up to the Panel actually. During the transition period as we go from basically American law



to Panamanian law, what steps have been taken to prevent conflicts of interest of the governing authority for the Panama Canal in contracting out services or the purchase of goods in the post-United States presence? Is there been anything along that line? And again, I am not saying anything that is unique to Latin America. I would think we have laws on the books in the United States and for good reason, because it would happen otherwise.

Mr. REEDER. It is a very important question and the answer is yes. One of the things that you will find when we reach the OMB clearance is that we are asking to put into place some things like the inspector general [IG] which are unique to our law, going all the way back to George Washington. That is a watchdog that we think is very important, and as Mr. Guardia can confirm, there is nothing like it in the Panama Government. So that is one check, if you will, in a check and balance.

Another, we have two sets of ethics' laws now applicable. We want to simplify. If you were to ask, what problems has that caused? I would not be able to identify a single one. You apply the most rigorous and stringent of the two, and if there is a conflict. But we would like to simplify it so that what we hand to Panama year 2000 is a very simple, clear, unequivocal set of standards with regard to ethics' laws.

But basically, the laws that apply now to the agency are identical to the laws that apply to any other Federal agency. And Mr. Guardia, before he became the administrator was a very prominent construction owner. It was a construction company. It did work with the canal. Obviously, that had to stop when he became administrator. That very well may be the case with his successor. Because we are looking for the best and the brightest, the most prominent, the most proven in the business arena to assume the helm and that is what we got with Mr. Guardia and hopefully we will get with his successor. But that is an issue obviously that we have to address as we go through the confirmation process.

Mr. TAYLOR. Mr. Guardia, if I may, going toward the concerns for the future. I am curious into how in the future they will be able to measure success as far as maintaining and expanding the canal in terms, other than by dollars. I think the budget of the city of Washington, DC, is a perfect example where they try to measure everything by dollars not by performance. That is obviously a very poor way of doing things.

In the 10-year plan that you have outlined, are there attainable goals and steps where people can measure the performance of the future Panama Canal Commission, as far as (a) maintaining the canal, and (b) expanding its capabilities in ways other than in dollars? I mean obviously what you are doing at the cut you are able to measure the width of the cut, the depth of the cut. Can you do that in other ways down the line?

Mr. GUARDIA. The canal operation is so sensitive that it takes a numerous amount of operations to have a flow of continuous traffic. Maintenance programs are maintained so that the canal never stops because there is a piece of equipment that is not functioning. It is a matter of getting ahead and maintaining standards in all of its equipment that ensures the reliability and the availability of

the canal. I think that the best measure of that is that continuous stream of traffic.

And I think I have said in many areas or in many instances that the canal organization has a unique culture which is not prominent in Panama. It is unique to the point where accidents, for instance, in the Panama Canal, rate of accidents have lower levels than many comparable enterprises in the United States or in any developed country. These are the things that are essential for the operation of the Panama Canal and they will, I'm sure, be monitored very closely post-2000, as well as they are monitored today by the same people who are in the canal today.

That is perhaps one of the key issues of the transition when the work force of the canal is recognized, as our chairman did just a while ago, as one of the pillars in the operation, is the retention of that work force, is making sure that those people who have worked for the canal organization for so many years continue on in the canal organization.

Aside from that, ways of measuring, you are right, you could do the same thing with less dollars and not be gaining very much. The cost of running the canal is not a good measure of its efficiency. But I think that there is a measure of its efficiency that imposes itself to everyone, 24 hours a day, 365 days a year. This is perhaps the key item in the operation of the canal.

Mr. REEDER. I might add, Congressman Taylor, that we do think measuring from a dollar standpoint is important, but you are quite right, it is by no means the only measure and sometimes it is not even the most important measure. We use dollars as a way of measuring, but there are other things that we use, and we are asking the same question you are asking.

One of the measuring sticks is what we call canal water time. And our bench right now is 24 hours. But that is what we advertise and that is what we are known as in the business of being able to handle and we do not have you in that canal for more than a total 24 hours. Obviously, anything we can do to reduce that, if you divide the 24 into \$250,000, you can do it as an hourly rate of cost being in the canal. Number of vessels daily tells you something about how we are performing, as the testimony was. It was 37 vessels. Last year in a recordbreaking year, moving from the 42 up to the 50, but that is a measuring stick. Every day that we get a record, number of transits that come through obviously something else gives way. There is a little more wear and tear, because we may pass up, if we have a bunch of vessels queued up, we may pass up a regularly scheduled maintenance because we have done a tradeoff. We said well the maintenance was supposed to be on March 1, but we have got 50 vessels queued up, let us let them go through and let us try and slip that two weeks.

Number of Panamax vessels, very important measuring stick. Costs us more, but conversely makes up a lot more in the way of tolls, because we pass that on, the way we set the tolls. I think one measuring stick though, and this gets back to the dollar measuring, is the fact that in the 81-year history, we have had six toll increases. And the toll increases have not begun to equate to the increase in the other costs of shipping, increases in inflation. But the last two measurements that Mr. Guardia mentioned, the safety

measurements, the number of accidents that we have had. We are very proud of that rate. Exchange rates and to exchange safety technology and engineers with the Department of Defense [DOD], with the Armed Services, aircraft, Navy, and we compete very favorably.

And the last one that Mr. Guardia mentioned is the turnover. Very proud of the fact that the turnover rate has been very low. That is very important to the canal and canal operation in the continuity of the canal and the training of the new folks that come on board. It will be very important as we go across that year 2000 because we have 20 or 30 percent of folks who will be eligible for retirement and we do not need and do not want. And frankly, we will have great difficulty assimilating retirements in that quantity.

So one of the things that the new legislation, if we can get it into your hands, would help us do is to pick out those positions that are key to us and make sure that we do the kinds of things that a business-like corporation would do to ensure that we keep those positions filled or that we have someone in the queue to fill that position. If we see a bunch of them in a particular group going out, for example, management and information services or engineering department.

Mr. TAYLOR. Thank you, Mr. Chairman.

Mr. GUARDIA. I would like to add something to your question. I think your question has different aspects which are very important. The chairman mentioned in his presentation two things which I think are very important. One of them is the institution of the IG and the Commission. And another one is standards of ethics in the Commission. And I think these are important because performance is directly interrelated to them.

The Panama Canal Commission is an agency that has autonomy and has financial independence. And it has checks and balances. This is one of the issues for the post-2000 and that is why it is so important to be able to preserve and to maintain in the Panamanian agency those two elements which are crucial. One of them is to have a well-defined code of ethics that permeates throughout the organization on the one hand. And on the other who have a system that ensures that everything that is done in that agency is done from the perspective that there is accountability. You can only achieve that by having an efficient, permanent audit office that reviews all of the transactions and reviews everything that the Commission does.

These are the things that play a tremendous part in control of expenses and in the transparency of the operations of the agency. These things we are integrating into what we are passing on to Panama as sensitive things and important things to be included in their organic law.

Mr. TAYLOR. Thank you, Mr. Chairman.

Mr. BATEMAN. Secretary Reeder, you made reference to the legislative proposals that you are waiting to hear from OMB on. They will include a number of things in the personnel area. I would take it that these changes are things that have been developed in discussion with and with input from the personnel and the representatives of the personnel who will be effected?

Mr. REEDER. Are you referring, Mr. Chairman, to the work force?

Mr. BATEMAN. Yes.

Mr. REEDER. I would defer that question to management, either Mr. Guardia or Mr. Cornelison. I do know that aspects, many aspects have been discussed with the work force and I do know also that in this immediate past year, we have made an effort, I think, in the amount. But I would ask Joe Cornelison to be precise about this, if he can, of about a million dollars increased in incentive pay for performance because of the record year, because we keep talking about the record year in transits and revenues. The fact of the matter is that meant folks away from home, overtime, working the locks, more maintenance, more pilot time, that kind of thing. But yes, they understand, I think, and we have been publicizing, although I do not know the extent to which we have gotten down or the details, that we are trying to move toward a performance-based compensation—or move more of the compensation into the performance column as opposed to the lockstep, how much time you have spent in grade column.

Mr. CORNELISON. Just to add a comment to that. Mr. Chairman, we have given a complete package of the proposed legislation, along with our reasons for pursuing them, to the representatives of each one of the unions, so they are fully aware of the proposals. So far we have not gotten any specific negative comments back. And some of those initiatives were in the proposal, based upon what we know to be concerns about the workforce toward the future.

Mr. BATEMAN. It is encouraging. I ask the question because my nature I do not particularly like surprises. Most people when it comes to the terms and conditions of their employment do not like surprises either. Mr. Taylor, do you have anything further?

Mr. TAYLOR. No, sir. No, Mr. Chairman.

Mr. BATEMAN. Again, delighted to have you all back before the Panel. If you have any other comments that you would like to address to the Panel, we would be happy to hear them, but if not, we will conclude our hearing.

Mr. REEDER. Mr. Chairman, thank you again for coming down to visit us. We look forward to seeing you again down there.

Mr. BATEMAN. I was delighted to do that. When I found myself chairing this Panel and having jurisdiction over the Panama Canal, it seemed unthinkable that I had never seen the canal. And I must tell you I was genuinely impressed by that marvelous 81-year old technology that no one seems to have been able to find a way to improve it by. It is really something that is marvelous to behold.

Thank you both very much. Thank all of you.

Mr. REEDER. Thank you, Mr. Chairman.

[Whereupon, at 12 p.m., the committee was adjourned.]









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